

The Commonwealth of Massachusetts: Auditor's dept.

DEPARTMENT OF THE AUDITOR

# ANNUAL REPORT

FOR THE

FISCAL YEAR ENDING JUNE 30, 1954

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MASSACHUSETTS



THOMAS J. BUCKLEY  
STATE AUDITOR

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DEPARTMENT OF THE AUDITOR

ANNUAL REPORT

For the

FISCAL YEAR ENDING JUNE 30, 1954

I have the honor to submit the Annual Report of the Department of the Auditor for the fiscal year, July 1, 1953 to June 30, 1954.

Section 12 of Chapter 11 of the General Laws defines the duties of the Department of the State Auditor.

"SECTION 12. The department of the state auditor shall annually make a careful audit of the accounts of all departments, offices, commissions, institutions and activities of the commonwealth, including those of the income tax division of the department of corporations and taxation, and for said purpose the authorized officers and employees of said department of the state auditor shall have access to such accounts at reasonable times and said department may require the production of books, documents and vouchers, except tax returns, relating to any matter within the scope of such audit. The accounts of the last named department shall be subject at any time to such examination as the governor and council or the general court may order. Said department shall comply with any written regulations, consistent with law, relative to its duties made by the governor and council. This section shall not apply to the accounts of state officers which the director of accounts of the department of corporations and taxation is required by law to examine. The department of the state auditor shall keep no books or records except records of audits made by it, and its annual report shall relate only to such audits."

All requirements of the law relating to the duties and functions of the State Auditor have been carefully complied with for the fiscal year ended June 30, 1954.

Personnel: As of June 30, 1954, the permanent Civil Service staff of this office included eight World War I veterans, fifteen World War II veterans and nine non-veterans.

Mr. William H. Maus of Palmer was promoted to the grade of Senior Accountant by competitive Civil Service examination.

Mr. Peter J. Pontuso of Dedham, Junior Accountant, died on April 22, 1954.

Mr. James J. O'Neill of Dorchester resigned from the service of the Commonwealth.

The following permanent Civil Service appointment has been made:

Eugene L. Shapiro of Malden to Junior Accountant

One special audit was required during the fiscal year:

Special Commission on the Structure of the State Government

General: Individual copies of audit reports for all State activities have been submitted to His Excellency the Governor, the Lieutenant-Governor, the President of the Senate, the Speaker of the House, the Chairman of the Commission on Administration and Finance, the Comptroller and the State Librarian. Copies also have been forwarded to the administrative head of each institution or agency concerned, the chaplains, medical boards and trustees of the institutions, and the commissioner of each department.

Summary of Audits Completed: The following listed audits of State departments and institutions have been made since my last report to the legislature:

SCHEDULE OF REGULAR AUDITS COMPLETED		FISCAL YEAR 1953-1954		Page
Department or Institution	From	To	No.	
<b>Governor and Council:</b>				
Aeronautics Commission	Mar. 23, 1953	Dec. 21, 1953	93 -	94
Alcoholic Beverages Control Commission	Jan. 21, 1953	May 5, 1954		179
Armory Commission	Sept. 24, 1952	Jan. 4, 1954	128 -	129
Art Commission for the Commonwealth	May 1, 1953	Sept. 29, 1953	-	
Ballot Law Commission	May 5, 1953	Oct. 2, 1953	-	
Boston Arena Authority	July 17, 1953	Feb. 28, 1954	148 -	150
Civil Defense Agency	May 25, 1953	Nov. 10, 1953	94 -	96
Commission Against Discrimination	May 14, 1953	Oct. 14, 1953	-	
Commission on Administration and Finance:				
General Department	July 1, 1952	June 30, 1953	81 -	88
Division of Building Construction	Sept. 11, 1952	Oct. 29, 1953	72 -	73
Commission on Alcoholism	May 14, 1953	Oct. 5, 1953	-	
Commission on Uniform State Laws	May 5, 1953	Oct. 2, 1953	-	
Commissioner of Veterans Services	Dec. 22, 1952	Dec. 16, 1953		104
Commissioners to Revise, Recodify,				
Consolidate and Arrange the General Laws	May 15, 1953	Oct. 15, 1953	-	
Disaster Emergency Relief Agency	June 22, 1953	Nov. 19, 1953	-	
Massachusetts Market Authority	Jan. 26, 1951	Mar. 10, 1954		147
Mount Greylock Tramway Authority	Oct. 28, 1953	May 24, 1954		188
Military Division of the Executive Department	Sept. 24, 1952	Jan. 4, 1954	126 -	128
Military Reservation Commission	Sept. 24, 1952	Jan. 4, 1954	-	
Milk Regulation Board	Dec. 19, 1952	Nov. 3, 1953	-	
Outdoor Advertising Authority	Jan. 5, 1953	Nov. 30, 1953		99
Port of Boston Authority	Sept. 8, 1952	Sept. 29, 1953	58 -	66
Public Bequest Commission	May 1, 1953	Sept. 29, 1953	67 -	68
Soldiers' Home in Chelsea	July 24, 1952	July 9, 1953	24 -	26
Soldiers' Home in Holyoke	Mar. 19, 1953	Mar. 30, 1954	164 -	166
State Housing Rent Co-Ordinator	June 16, 1953	May 27, 1954		188
State Library	May 1, 1953	Sept. 30, 1953	-	
State Racing Commission	Dec. 2, 1952	Nov. 19, 1953		98
State Superintendent of Buildings	Sept. 12, 1952	Sept. 30, 1953	68 -	69
Veterans' Bonus Commission	July 1, 1953	Oct. 7, 1953	69 -	72
<b>Secretary of the Commonwealth:</b>				
General Department	July 22, 1952	Aug. 3, 1953	35 -	37
Commission on Interstate Co-operation	Aug. 25, 1952	Sept. 28, 1953	-	
<b>Treasurer and Receiver-General:</b>				
General Department	Feb. 2, 1953	Feb. 4, 1954	139 -	143
Emergency Finance Board	May 4, 1953	Feb. 11, 1954	144 -	145
State Board of Retirement	Jan. 1, 1953	Dec. 31, 1953	172 -	173
<b>Attorney General</b>	Jan. 21, 1953	Oct. 21, 1953		74
<b>Department of Agriculture:</b>				
General Department	Oct. 27, 1952	Nov. 3, 1953	75 -	80
Division of Livestock Disease Control	Dec. 5, 1952	Nov. 3, 1953		80
Milk Control Commission	Sept. 16, 1952	Sept. 21, 1953	54 -	58
<b>Department of Banking and Insurance:</b>				
Division of Banks	Sept. 12, 1952	Oct. 6, 1953		69
Division of Insurance	Apr. 9, 1953	May 18, 1954	183 -	186
Division of Savings Bank Life Insurance	Dec. 15, 1952	Jan. 7, 1954		134
Supervisor of Loan Agencies	Apr. 30, 1953	Oct. 13, 1953	-	
<b>Department of Civil Service and Registration:</b>				
General Department	Sept. 2, 1952	Aug. 31, 1953		42
Architects, Board of Registration of	Sept. 2, 1952	Sept. 28, 1953	45 -	46
Barbers, Board of Registration of	Sept. 2, 1952	Oct. 15, 1953		47
Certified Public Accountants,				
Board of Registration of	May 7, 1953	Nov. 25, 1953	-	
Chiropody, Board of Registration in	Sept. 2, 1953	Nov. 24, 1953		48
Dental Examiners, Board of Registration of	Sept. 2, 1952	Oct. 5, 1953		48
Electricians, State Examiners of	Sept. 2, 1952	Oct. 22, 1953		47
Embalming and Funeral Directing,				
Board of Registration in	Sept. 2, 1952	Oct. 6, 1953	46 -	47

Department or Institution	From	To	Page No.
<b>Department of Civil Service and Registration (Continued):</b>			
Hairdressers, Board of Registration of	Sept. 2, 1952	Sept. 14, 1953	44
Medicine, Board of Registration in	Sept. 8, 1952	Sept. 2, 1953	43 - 44
Nursing, Board of Registration in	Aug. 11, 1952	Sept. 8, 1953	43
Optometry, Board of Registration in	Sept. 2, 1952	Nov. 23, 1953	-
Pharmacy, Board of Registration in	Sept. 2, 1952	Oct. 29, 1953	47
Plumbers, Board of State Examiners of	Sept. 2, 1952	Nov. 19, 1953	47
Professional Engineers and Land Surveyors, Board of Registration of	Sept. 2, 1952	Sept. 28, 1953	44 - 45
Veterinary Medicine, Board of Registration in	Sept. 2, 1952	Sept. 30, 1953	-
<b>Department of Commerce</b>	May 26, 1953	June 9, 1954	190 - 191
<b>Department of Corporations and Taxation:</b>			
General Department	July 1, 1952	July 1, 1953	11 - 18
Appellate Tax Board	Jan. 5, 1953	Mar. 16, 1954	-
Bureau of Accounts	Apr. 7, 1953	Apr. 27, 1954	174
<b>Department of Correction:</b>			
General Department	Jan. 5, 1953	Nov. 4, 1953	89
Reformatory at Concord	Feb. 18, 1953	Apr. 12, 1954	167 - 169
Reformatory for Women	May 28, 1953	May 17, 1954	181 - 182
State Farm at Bridgewater	July 7, 1952	July 6, 1953	26
State Prison	Mar. 30, 1953	Apr. 23, 1954	169 - 172
State Prison Colony	Mar. 19, 1953	May 5, 1954	179
<b>Department of Education:</b>			
General Department	May 25, 1953	Nov. 17, 1953	96 - 98
Bradford Durfee Technical Institute	Jan. 19, 1953	Feb. 8, 1954	143
Division of the Blind	Nov. 10, 1952	Mar. 15, 1954	150 - 152
Division of Library Extension	May 25, 1953	Nov. 17, 1953	98
Division of Immigration and Americanization	May 25, 1953	Nov. 17, 1953	-
Lowell Technological Institute	Aug. 4, 1952	Aug. 31, 1953	37 - 39
Lowell Technological Institute Research Foundation	Sept. 3, 1952	Aug. 31, 1953	39 - 42
Maritime Academy	June 1, 1953	May 4, 1954	178 - 179
New Bedford Institute of Textiles and Technology	Feb. 17, 1953	Mar. 8, 1954	146
School Buildings Assistance Commission	May 22, 1953	June 9, 1954	188 - 189
School Lunch Programs, Office of	May 25, 1953	Nov. 17, 1953	99
School of Art	June 3, 1953	Apr. 7, 1954	166
State Teachers College at Boston	Sept. 15, 1952	Apr. 7, 1954	166
State Teachers College at Bridgewater	Sept. 8, 1952	Oct. 19, 1953	72
State Teachers College at Fitchburg	May 25, 1953	May 24, 1954	187
State Teachers College at Framingham	May 18, 1953	May 25, 1954	187 - 188
State Teachers College at Lowell	Feb. 9, 1953	Feb. 23, 1954	146
State Teachers College at North Adams	Apr. 6, 1953	Mar. 19, 1954	156
State Teachers College at Salem	Mar. 31, 1953	Jan. 26, 1954	138
State Teachers College at Westfield	May 4, 1953	Jan. 13, 1954	134
State Teachers College at Worcester	Apr. 28, 1953	Mar. 19, 1954	156 - 157
Teachers' Retirement Board	Jan. 1, 1953	Dec. 31, 1953	144
University of Massachusetts at Amherst	July 28, 1952	July 21, 1953	30 - 35
<b>Department of Labor and Industries:</b>			
General Department	June 1, 1953	May 17, 1954	186 - 187
Division of Employment Security	Apr. 21, 1953	May 3, 1954	174 - 177
Division of Industrial Accidents	Jan. 12, 1953	Feb. 23, 1954	145 - 146
Labor Relations Commission	May 21, 1953	Nov. 5, 1953	-
<b>Legislature:</b>			
Sergeant-at-Arms	May 18, 1953	Dec. 9, 1953	-
Special Commission on the Structure of the State Government	May 6, 1953	Nov. 3, 1953	-
Special Cash Audit	Nov. 3, 1953	Mar. 15, 1954	147 - 148
<b>Department of Mental Health:</b>			
General Department	Sept. 17, 1952	Sept. 8, 1953	48 - 52
Belchertown State School	Feb. 11, 1953	Dec. 11, 1953	144
Boston Psychopathic Hospital	Jan. 8, 1953	Dec. 7, 1953	102 - 103
Boston State Hospital	Mar. 18, 1953	Mar. 15, 1954	148
Danvers State Hospital	Oct. 6, 1952	Nov. 30, 1953	99 - 100
Foxborough State Hospital	Oct. 31, 1952	Nov. 2, 1953	73
Gardner State Hospital	Aug. 7, 1952	Aug. 3, 1953	37
Grafton State Hospital	Sept. 29, 1952	Nov. 2, 1953	74 - 75



Department or Institution	From	To	Page No.
<b>Department of Mental Health (Continued):</b>			
Medfield State Hospital	Apr. 6, 1953	May 10, 1954	179 - 181
Metropolitan State Hospital	Nov. 25, 1952	Mar. 8, 1954	147
Monson State Hospital	Dec. 17, 1952	Sept. 22, 1953	52 - 54
Myles Standish State School	Oct. 21, 1952	Nov. 16, 1953	96
Northampton State Hospital	July 7, 1952	July 20, 1953	30
Taunton State Hospital	Dec. 8, 1952	Dec. 28, 1953	104
Walter E. Fernald State School	June 1, 1953	Apr. 12, 1954	167
Westborough State Hospital	Feb. 4, 1953	Feb. 1, 1954	134 - 137
Worcester State Hospital	Dec. 1, 1952	Dec. 7, 1953	100 - 102
Wrentham State School	June 1, 1953	Apr. 27, 1954	173 - 174
<b>Metropolitan District Commission</b>	Sept. 15, 1952	Jan. 4, 1954	129 - 131
<b>Department of Natural Resources:</b>			
General Department	Apr. 23, 1953	Mar. 15, 1954	152 - 154
Fisheries and Game, Division of	Apr. 23, 1953	Mar. 15, 1954	154 - 156
<b>Department of Public Health:</b>			
General Department	Oct. 6, 1952	Oct. 19, 1953	73 - 74
Lakeville State Sanatorium	Sept. 29, 1952	Sept. 16, 1953	52
North Reading State Sanatorium	July 21, 1952	Oct. 1, 1953	66 - 67
Pondville State Hospital	June 3, 1953	May 3, 1954	177 - 178
Rutland State Sanatorium	Mar. 31, 1953	Apr. 1, 1954	157
Westfield State Sanatorium	Mar. 26, 1953	Feb. 1, 1954	138 - 139
<b>Department of Public Safety</b>	Nov. 20, 1952	May 12, 1954	182 - 183
<b>Department of Public Utilities</b>	May 4, 1953	May 26, 1954	188
<b>Department of Public Welfare:</b>			
General Department	May 14, 1953	Mar. 29, 1954	157 - 164
Massachusetts Hospital School	Apr. 9, 1953	June 1, 1954	189 - 190
Tewksbury State Hospital and Infirmary	Nov. 10, 1952	July 1, 1953	19 - 24
<b>Department of Public Works:</b>			
General Department	Feb. 2, 1953	Jan. 4, 1954	104 - 125
Registry of Motor Vehicles	July 1, 1952	July 1, 1953	6 - 11
State Airport Management Board	Dec. 12, 1952	Nov. 9, 1953	89 - 93
<b>Supreme Judicial Court:</b>			
Board of Bar Examiners	July 1, 1952	June 30, 1953	-
Clerk for the Commonwealth	May 11, 1953	Oct. 7, 1953	-
Reporter of Decisions	May 12, 1953	Oct. 5, 1953	-
State Board of Probation	May 12, 1953	Oct. 8, 1953	-
<b>Division of Youth Service:</b>			
General Department	Oct. 30, 1952	Jan. 4, 1954	131 - 134
Industrial School for Boys	May 25, 1953	June 9, 1954	191 - 192
Industrial School for Girls	May 11, 1953	Apr. 26, 1954	172
Lyman School for Boys	July 7, 1952	July 6, 1953	26 - 30
Detention Center	July 1, 1953	Jan. 20, 1954	137 - 138

The following comments, exceptions and recommendations were included in the reports issued in connection with these examinations.

## REGISTRY OF MOTOR VEHICLES

REPORT NO. 54-1

Refunds of Fees Account of Applications for Licenses to Operate Motor Vehicles:  
Previous audit reports have stated:

"At present applicants file applications, together with the fee of \$6.00, with the examiner at the examination point. The \$6.00 covers the examination fee of \$2.00 and the license fee of \$4.00 covering two years. Should the applicant pass the examination, he receives a temporary license and a permanent license is mailed to him later. If the applicant fails in his examination, the license fee of \$4.00 is refunded to him in cash by the examiner. The same arrangement applies in re-examinations, except that the re-examination fee is \$1.00, so that the applicant deposits \$5.00 instead of \$6.00. It is again recommended that the Comptroller's Bureau review the routine of handling fees and provide some method that will eliminate the present practice of refunds being made by the examiners.

"No action has been taken on this recommendation, but a new position has been established and classified as 'Supervisor of Special Services - Driver Licenses' and the duties of the Supervisor will be to standardize methods and procedures at all of the examination places."

It was noted that the foregoing situation remains practically the same excepting that the fee for the first examination has been increased from \$2.00 to \$3.00 and for subsequent examinations from \$1.00 to \$1.50. The fee for a license was increased from \$4.00 to \$5.00.

In further connection with this matter attention is called to the fact that the position of "Supervisor of Special Services - Driver Licenses" has been filled but the incumbent has been ill and, therefore, the suggested changes have not been made.

Deposit in Lieu of Insurance: Chapter 346 of the Acts of 1925 provided that in lieu of taking compulsory liability insurance an applicant for registration of a motor vehicle could deposit with the Department of Public Works cash or collateral with a market value of not less than \$5,000.00. The records of such deposits were originally maintained in the Division of Highways. Chapter 571 of the Acts of 1949 changed this and provided that the deposit of \$5,000.00 is to be made with the State Treasurer. The only record the Registry keeps of such transactions is the certificate issued by State Treasurer to the applicant, which is attached to the application for registration of a motor vehicle. It is again suggested that a register be kept showing such deposits.

Cash Overages and Shortages: The sum of \$2,000.00 is advanced to the Cashier from the Chief Accountant's advance to clear overages and shortages in income at the Main office and the several branch offices. On the date of audit, there was being carried in this account a net shortage of \$1,327.47, an analysis of which follows:

Status of Shortages Paid from Cashier's  
\$2,000.00 Advance and Overages Paid into  
the Advance as of July 1, 1953

Shortages Paid from Advance:		
Branch Offices	\$2,582 44	
Bank Deposit Shortage (Boston)	16 00	
Boston Office	363 41	
Counterfeit Money Made Good	42 00	
Bad Check	1 00	
Tellers - To Cover Shortages	20 45	
Total Shortages Cleared		\$3,025 30
Less:		
Overages Paid into Advance:		
From Branch Offices	\$788 79	
From Over and Short Account	905 04	
From Mail Room	4 00	
Total Overages		1,697 83
Net Shortage (Should be Appropriated)		<u>\$1,327 47</u>

On the same date this fund of \$2,000.00 consisted of the following:

Cash on Hand	\$ 297 53
Advances Paid to Tellers for Petty Cash	375 00
Net Shortage	<u>1,327 47</u>
	<u>\$2,000 00</u>

It was noted that this account has not been cleared by legislative appropriation since 1939, and the foregoing shortages and overages represent the accumulation of more than fourteen years, during which period the receipts for Registry income approximated \$142,000,000.00. This amount included receipts in the main office which amounted to approximately \$56,000,000.00. It is, therefore, recommended that the necessary steps be instituted to clear this advance account.

Overage at Attleboro Branch: In this connection the previous audit stated:

"It was noted that the general cash book for the month of March 1952 included the following memorandum:

'Sometime in December 1951 the Attleboro Branch found that they were \$200.00 short. The investigator in charge went to the bank and for some reason told the bank people that the office was \$400.00 short. The bank stated that they had a \$400.00 overage for that day and handed the investigator \$400.00. This left the Branch with an overage of \$200.00. Sometime after the Branch was \$20.00 short which left an overage of \$180.00.

'When closing the branch a deposit of \$947.50 was made which included incorrectly the \$180.00 overage. The Treasurer requested that the \$180.00 be transferred from Motor Vehicle Fees account to Account Commonwealth of Massachusetts. The bank made this transfer on March 19, 1952.

'Check Number 839476 from the State Treasurer dated March 26, 1952 received on July 2, 1952 for \$180.00. Entered into the Over and Short account in records of \$2,000.00 Advance from Chief Accountant.'

"The foregoing item was entered in the Over and Short Account on July 2, 1952.

"This matter was discussed with the Chief Accountant and it was understood that he has repeatedly talked with the officials of the Attleboro branch about this matter, but with no results."

It was again noted that there has been no additional information relative to this overage.

This amount is being carried as part of the \$2,000.00 advance made to the Cashier by the Chief Accountant.

\$50,000.00 Advance Fund - Bad Checks: It has been the practice to cash bad checks through this fund, and at the date of audit this fund included \$617.46 of such items of which 29 checks totaling \$166.21 appear doubtful of collection. The checks were dated since 1946. If it is finally determined that collections cannot be made, it is suggested that the records be cleared through appropriation.

This advance fund which is made by the State Treasurer to pay salary advances and checks should not be used for clearing such checks, and it is suggested that a separate advance fund should be obtained for such a purpose.

It was also noted that an overage of \$6.50 appeared in this fund as of June 30, 1953. It is suggested that it be transferred to the \$2,000.00 advance fund.

Taunton Branch - Overage: It was noted that a second check for \$16.00 drawn on the \$2,000.00 advance fund in error was sent to the branch. A shortage of \$16.00 was previously cleared through the advance fund by a check drawn in March 1953. The latter check, however, instead of being returned, was deposited in the branch's bank account to the credit of the State Treasurer.



This overage does not appear in the cashier's branch over and short record of earnings June 30, 1953. It is, however, included as of July 31, 1953.

Lynn Branch - Income Cash: As of the date of the audit visit to this branch, its income cash on hand included a protested check for \$18.00 dated June 19, 1953, and an overage of \$3.55.

Outstanding Checks One Year Old: It was noted that 53 checks totaling \$140.93 in the Rebates and Refunds account and in the Chief Accountant's advance account 11 checks totaling \$17.00 have been carried as outstanding for a period in excess of one year.

It is suggested that payment of the checks be stopped and the proceeds be disposed of in accordance with existing directives.

Daily Deposit of Income Cash by All Tellers: In addition to the counter tellers, employees in several other sections within the Registry receive income cash. It is suggested that all such receipts be transferred to the cashier daily. All such persons should also be included under the blanket bond.

Income Cash on Hand - Registrar's Office: The count of cash on hand in this office on the date of audit indicated three items totaling \$17.50 which were not entered on the cash sheets. It is suggested that all such cash be entered on the cash sheets when received.

Split Cash Sheets: In this connection the previous audit report stated:

"All fees collected are recorded daily on serially numbered cash sheets, twenty-five numbers to a sheet. The serial numbers and the calendar year are printed on all cash sheets. These serial numbers are assigned to the various branches each year and thus provide the bookkeeping division with a control over income.

"The term 'split sheet' is applied to cash sheets not completed at the end of a business day. At the close of business on Friday of each week all cash sheets, both completed and incomplete, are supposed to be sent in to the Boston office by all branch offices and all income is to be deposited in the several banks. The incomplete numbers on each sheet are supposed to be stamped on blank sheets and used in order.

"It was understood that sixteen branch offices and North Adams were using split sheets on the date of audit, while four were not following the prescribed method. These branches were writing in the unused numbers, instead of using a number stamp, and in some cases writing in only the first and last number. One branch has been splitting passenger and truck sheets only, and this branch has been splitting sheets at the close of business on Thursday instead of Friday."

It was noted that now all branches are handling split sheets in a consistent manner.

Reconciliation of Cash at Branch Offices: In this connection the previous audit report stated:

"The rules and regulations provide that the manager of each branch office is to personally balance the cash twice a month and file a report of such cash reconciliation with the Chief Accountant, however, this rule has in many cases not been adhered to. Apparently it has not been the practice to have a representative of the Boston office visit the branch offices and make an independent reconciliation of the cash. It is suggested that this be done periodically.

"It was learned that branch offices have been visited by representatives of the Boston office, who balanced cash at the time of these visits. Each office was visited at least once during the fiscal year just ended. A special report form used for reconciling cash was filed with the Chief Accountant in the Boston office. It was also noted that the manager of the branch offices had been instructed to balance cash twice monthly and had been provided with standard forms to be used for that purpose."



It was noted, however, that fourteen branch offices received one visit each from a representative of the Boston office during the period under audit and it is, therefore, recommended that the practice of visiting each branch office at least once a year be resumed.

Referring to the reconciliation of cash at the branch offices by the managers of the respective branches, it was noted that this has not been done in the case of five branches. It was further noted that many of the others had not been balanced on a regular basis.

Cashier's Office - Rebate and Refund Advance Fund: Previous audit reports have stated:

"It is suggested that the Comptroller's Bureau should be contacted relative to the installation of a cash book in which to record the receipts and disbursements of the Fund.

"This has not yet been done and the suggestion is, therefore, repeated. About \$150,000.00 passed through this account during the previous calendar year, and it would appear that the amount is sufficiently large to warrant the use of a cash book in which to record advances received and total disbursements by schedule number, with monthly balancing. Inclusive check numbers should be entered as applying to each respective schedule and individual receipts or disbursements should also be entered. Such a cash book would bring all activities of this fund into a single record."

This suggestion not having been adopted, attention is again called to it.

1951 Number Plates Continued in Use in 1952: Reference to the statutes governing the use of number plates follows:

"Section 2 of Chapter 90 of the General Laws provides that the Registrar shall furnish two number plates to each person whose motor vehicle is registered under said Chapter 90. Chapter 470 of the Acts of 1949 amended Section 2 of Chapter 90 of the General Laws and referring to number plates reads in part as follows:

"The number plates so furnished shall, except as provided by section nine, and except in case the registrar for any valid reason extends the time, be valid only for the year for which they are issued. If the registrar extends the time he may make rules and regulations requiring the display of visible evidence upon every motor vehicle that it has been registered and that the plates in use thereon are valid. Any plate becoming illegible because of construction defects shall be replaced by the registrar without cost."

Acting under the authority of this Chapter, the Registrar permitted the use of the 1951 number plates for the year 1952 and provided a so-called sticker to be pasted on the windshield of the motor vehicle. Prior to the 1950 year there was one set of cash sheets for passenger cars and one set for trucks, the cash sheets contained 25 lines, each serially numbered and the number appearing against the name of the person registering the motor vehicle was the same as the number plate furnished him. For the 1952 year the serial numbers printed on the cash sheets are "Financial Transaction" numbers and these numbers correspond with the serial numbers printed on the "Stickers" which are furnished persons registering a motor vehicle in 1952 that had been registered in 1951. A person registering a motor vehicle for the first time in 1952 received two 1951 number plates and also a "Sticker".

The applications for registration of motor vehicles are filed in numerical order by plate number and the entries on the cash sheet are under "Financial Transaction" numbers which makes the auditing of fees received very difficult.

Registry and Comptroller - Reconciliation of Income: For the fiscal year ended June 30, 1953 the total receipts of record indicated those represented by the Registry in excess of those on the Comptroller's records in the amount of \$151,146.57, because of incorrect and late reporting of receipts to the Comptroller's Bureau by the office of the State Treasurer. The cash records of the Comptroller's Bureau were allowed to remain

open for entry of 1953 fiscal year receipts until July 6, 1953. Certain other receipts of February 1953 were not reported to the Comptroller until July 16, 1953 and will, therefore, appear with the 1954 fiscal year receipts on the records.

It is believed that frequent reconciliation of all Registry bank statements by the State Treasurer's office would correct this situation.

**Number Plates Impounded:** It was noted that four and five numbered plates returned are being impounded by the Registrar of Motor Vehicles as well as "H" number plates 1 to 10,000 and so-called distinctive numbered plates.

The impounding of such plates and issuing them at various times throughout the plate year obviously created problems in auditing such fees and records.

It is, therefore, suggested that a special block of cash sheets be assigned for the purpose of recording cash earnings for such items in order to better control the cash from such sources.

**Exchange of Plates:** It was noted that no fee is charged when one registration plate is exchanged for another plate. It is suggested that such exchanges of plates are in the same category as substitutions and should require payment of a fee.

**File Room - Missing Applications:** It was noted that many 1952 applications were missing from the files.

It is suggested that better control be exercised over all registration applications on file. Any application taken from the files should be replaced by a requisition properly authorized, designating the person who removed the application and the location to which it was removed.

**Passenger Car Application - No Fee:** The registration applications for plate numbers H-11355, 6, 7 and 8 indicated that no fees had been received. In this connection it was noted that a request from a moving picture studio for four registration plates for filming purposes had been granted by the Registrar.

**Dealers, Repairers, Transporters Applications - 1952 Year:** A list of fees collected as indicated by such 1952 registration applications on file totaled \$145,338.00 compared with \$145,687.00 appearing on the summary analysis of cash sheets. Several of these applications were missing from the files and only memorandum slips appeared in their stead, and it was, therefore, not possible to determine the fees thereon.

As 1951 plates were used during the 1952 year, it was not possible to determine whether any 1951 plates were in use in 1952 without being properly registered. Because 1953 plates will be used during the 1954 year, it is suggested that registration plates of dealers, repairers, transporters, registered in 1953 but not in 1954, be collected and held for use in connection with the audit which will be made of the activities of the 1954 year.

**Record of No Fees Charged:** It is suggested that a separate record be kept of all "no fee" items, including registrations, licenses, renewal licenses, etc. Possibly this could be accomplished by reserving a certain number of "Miscellaneous Cash Sheets" for this purpose.

**Internal Check of Certain Fees:** It is understood that applications received and processed by the Mail Section and by the Express Section are not checked for correctness of fees by the Checking Section. It is suggested that all applications received be reviewed with this in mind.

**Truck Applications - Checking Fees for Correctness:** In this connection 12 boxes of 900 applications each were checked to determine the accuracy of the respective fees charged. Six overpayments totaling \$344.00 and 17 underpayments totaling \$87.00 were noted. It was understood that rebates will be made for the overpayments, while an attempt will be made to collect the underpayments.

From the foregoing it is apparent that all applications are not being properly checked by the Checking Section within the Registry and it is, therefore, suggested that all such applications be completely verified.

**Cross References - Tractor Applications:** It is suggested that every application for registration of a tractor-part of a semi-trailer unit, show the registration numbers of all semi-trailers with which it is to be used. It is further suggested that all semi-trailer applications show thereon tractor application numbers with which they are to be used.



because the fee for a tractor - part of semi-trailer units - is based, in part, on the weight of the heaviest semi-trailer with which it is to be used.

**Validating Stamps on Applications:** Several of the semi-trailer fleet applications examined, as well as other types of applications, did not show the validating stamp of the Registry clerk or teller. It is suggested that each application should bear such identification.

**Erasures of Fees Entered on Applications:** When an incorrect fee is noted, it should be crossed out and the correct fee indicated. Any corrections of fees should also be approved by a responsible employee.

**Fees Entered in Pencil:** It was noted that fees are sometimes entered on applications with pencil. It is suggested that all fee entries be made in ink.

## DEPARTMENT OF CORPORATIONS AND TAXATION

### GENERAL DEPARTMENT

REPORT NO. 54-2

**Tax Distribution to Cities and Towns:** Early in each calendar year the Commissioner of the Department of Corporations and Taxation is required to submit to each city and town of the Commonwealth an estimate of the amount that each can expect that year from distribution of revenue from income and corporation taxes.

This estimate is included on the so-called "Cherry Sheets" issued by the department. The revenue thus accrued is distributed between the Commonwealth and the cities and towns on the following basis:

- 1) **Income Taxes** - With the exception of \$2,500,000.00 retained by the Commonwealth as Public Service Tax receipts, the increases in tax rates authorized by Chapter 800 of the Acts of 1950, and the cost of administration of the Income Tax Department, all funds received are distributed to the various cities and towns.
- 2) **Corporation Taxes** - This income is divided roughly - 1/6 to the Commonwealth, and 5/6 is distributed to the cities and towns.

A schedule of the Commissioner's estimates and payments to the various cities and towns for the past five years follows:

#### Fiscal Year Ending November 30, 1949

	<u>Income Tax</u>	<u>Business Corporation Tax</u>	<u>Total</u>
Commissioner's Estimates	\$29,040,919 00	\$26,000,000 00	\$55,040,919 00
Actual Payments to Cities and Towns	39,919,078 07	42,841,163 65	82,760,241 72
Underestimate	<u>\$10,878,159 07</u>	<u>\$16,841,163 65</u>	<u>\$27,719,322 72</u>
Percent of Payment to Estimate	<u>137.4%</u>	<u>164.7%</u>	<u>150.3%</u>

#### Fiscal Year Ending November 30, 1950

	<u>Income Tax</u>	<u>Business Corporation Tax</u>	<u>Total</u>
Commissioner's Estimates	\$35,000,000 00	\$37,000,000 00	\$72,000,000 00
Actual Payments to Cities and Towns	31,995,153 71	26,860,351 31	58,855,505 02
Overestimate	<u>\$3,004,846 29</u>	<u>\$10,139,648 69</u>	<u>\$13,144,494 98</u>
Percent of Payment to Estimate	<u>91.4%</u>	<u>72.5%</u>	<u>81.7%</u>

Fiscal Year Ending November 30, 1951

	<u>Income Tax</u>	<u>Business Corporation Tax</u>	<u>Total</u>
Commissioner's Estimates	\$30,002,012 52	\$25,000,000 00	\$55,002,012 52
Actual Payments to Cities and Towns	39,006,858 81	29,139,648 69	68,146,507 50
Underestimate	<u>\$9,004,846 29</u>	<u>\$4,139,648 69</u>	<u>\$13,144,494 98</u>
Percent of Payments to Estimate	<u>130.0%</u>	<u>116.5%</u>	<u>123.8%</u>

Fiscal Year Ending November 30, 1952

	<u>Income Tax</u>	<u>Business Corporation Tax</u>	<u>Total</u>
Commissioner's Estimates	\$30,000,000 00	\$25,000,000 00	\$55,000,000 00
Actual Payments to Cities and Towns	36,710,679 02	41,273,037 15	77,983,716 17
Underestimate	<u>\$6,710,679 02</u>	<u>\$16,273,037 15</u>	<u>\$22,983,716 17</u>
Percent of Payments to Estimate	<u>122.3%</u>	<u>165.1%</u>	<u>141.8%</u>

Period - December 1, 1952 to June 30, 1953

	<u>Income Tax</u>	<u>Business Corporation Tax</u>	<u>Total</u>
Commissioner's Estimates	\$33,000,000 00	\$33,000,000 00	\$66,000,000 00
Payments to Cities and Towns to June 30, 1953	\$33,000,000 00	\$31,500,000 00	\$64,500,000 00
Balance Not Distributed June 30, 1953	8,266,487 47	293,473 48	8,559,960 95
Total	<u>\$41,266,487 47</u>	<u>\$31,793,473 48</u>	<u>\$73,059,960 95</u>
Percent of Payments and Undistributed Balance to Estimate	<u>125.0%</u>	<u>96.3%</u>	<u>110.7%</u>

Income Tax Verification Notices: A total of 1,225 verification notices were mailed to confirm the Accounts Receivable balances unpaid on November 30, 1952 and remaining unpaid on July 1, 1953 of which 322 were returned by the Post Office as being unable to deliver.

Income Tax Assessments: Prior to 1946 assessment warrants were prepared in the Assessing Section of the Income Tax Division and sent to the Collector's Office, together with the individual taxpayers' bills. The bills were entered on the ledger cards and then mailed by the Collector's Office. Beginning with the 1946 income tax year, the preparation of warrants in the Assessing Section was discontinued except for additional assessments on unpaid accounts prior to 1946, and the assessments were established in the Collector's Office (subject to verification) from the taxpayers' return coupons in those cases where the taxpayers' enclosed full or partial payments with the tax return.

Under the present arrangement, the coupons are processed so that currency may be extracted, are sorted, and then sent to the nineteen ledger clerks, who list on warrants the amounts set up as assessments, which are subject to late verification. These warrants are entered in so-called master books, and in subcontrol ledgers. In order to establish an approximate record of accounts receivable in the department financial report as of June 30, the income tax and corporation tax assessments are anticipated and estimated amounts are entered in the control ledgers. These figures are accordingly adjusted at the time of the certification of the total assessments of the business corporation excise taxes in September of each year. At the time of the establishment of the income tax assessment subject to final verification, on September 1 of each year, these taxes



are also properly adjusted.

Chapter 816 of the Acts of 1950 provided that income taxes and business corporation taxes would be payable in their entirety at the time of the filing of the tax returns, March 1 for income taxes and April 10 for corporation taxes. This chapter was, however, amended by Chapter 750 of the Acts of 1951 which provided that individual income tax returns become due and payable in full on April 15 for the tax years through 1953.

In cases where income tax returns are received without remittances, the returns are segregated and sent to the assessing division which subsequently and prior to June 15 sends assessment warrants on such cases to the Collector's Office, together with any additional assessments resulting from reviews of the respective tax returns.

It was understood that the reason for the change in the system was occasioned by the inability of the Assessing Section to get the assessment warrants and the taxpayers' bills to the Collector's Office by September 1, the date the bills were apparently required to be mailed.

However, regardless of the reasons, it is fundamental from the point of view of adequate internal control that the assessments should not be established in the same section where they will ultimately be collected, because under the present arrangement it is impossible to get a satisfactory independent verification of the assessments as a basis of audit.

Annual Transfer of \$1,500,000.00 from Income Tax Collection to General Revenue:  
Previous audit reports have stated:

"It was noted that beginning with the 1935 year and through the 1951 year the sum of \$1,500,000.00 of income tax collections were paid over to the State Treasurer from Public Service Tax receipts and was credited to the general revenue of the Commonwealth. This transfer of tax collections to general revenue was made under the provisions of Chapters 307 and 357 of the Acts of 1933.

"In this connection Section 9 of Chapter 307 of the Acts of 1933 discontinued the income tax exemptions provided in the last clause of Section 1 (b) of Chapter 62 of the Tercentenary Edition of the General Laws, which reads in part as follows:

'...and except such foreign corporations as are subject to a tax upon their franchises payable to the commonwealth under section fifty-eight of chapter sixty-three.'

"It was further understood that the amount of \$1,500,000.00 was based on the amount of taxes paid prior to the 1933 year by a certain foreign telephone corporation whose dividends became taxable on the passage of Chapter 307 of the Acts of 1933, which act was passed after the foreign telephone company in question discontinued the payment of a franchise tax."

It was noted that the \$1,500,000.00 transfer herein described was increased to \$2,500,000.00 annually in accordance with letters dated October 31, 1951 and November 5, 1951 from the Commissioner of Corporations and Taxation to the State Comptroller, copies of which follow:

COPY

The Commonwealth of Massachusetts  
Department of Corporations and Taxation  
Division of Collections  
40 Court Street, Boston 8

Henry F. Long  
Commissioner

James W. Hennigan  
Director

October 31, 1951

To:  
Fred A. Moncewicz, Comptroller  
Commission on Administration and Finance  
State House, Boston

You are respectfully requested to transfer from Agency Fund Income Taxes, account

number 6940-14-01-37, to General Fund Public Service Taxes, account number 2713-09-01-40, the sum of \$1,000,000.00.

Respectfully submitted,

Commissioner of Corporations  
and Taxation

COPY

The Commonwealth of Massachusetts  
Department of Corporations and Taxation  
Division of Collections  
40 Court Street, Boston 8

Henry F. Long  
Commissioner

James W. Hennigan  
Director

November 5, 1951

Fred A. Moncewicz, Comptroller  
Commission on Administration and Finance  
State House, Boston

Attention: John A. Ronan, Deputy Comptroller

Dear Sir:

Permit me to acknowledge your letter of October 31, in which you ask the purpose of \$1,000,000.00 from the Income Tax Fund and request proper reference for accomplishment of the transfer.

That phrase of Section 18, Chapter 58 of the General Laws controlling distribution of Income Taxes which reads "after deducting . . . . a further sum determined by the commissioner to be the equivalent of the tax derived from dividends of such foreign corporations as are subject to tax upon their franchises payable to the commonwealth under section fifty-eight of chapter sixty-three . . ." is the determining factor of the transfer to be made. As Commissioner I have determined the sum of \$2,500,000.00 the amount to be retained by the Commonwealth as outlined above, before distribution to cities and towns of taxes on incomes under Chapter 62 in accordance with provisions of said Section 18 of Chapter 58 of the General Laws.

Since by direct allocation of income tax collections to account number 2700-103 of the General Fund during March and April of 1951, I retained \$1,500,000.00 for the Commonwealth on this account, it may be understood that the certification of this transfer of \$1,000,000.00 from the Income Tax Fund to the General Fund is to complete the amount of 1951 Tax on incomes to be retained by the Commonwealth under provisions of Section 18 of Chapter 58 as outlined above.

Cordially yours,

Commissioner of Corporations  
and Taxation

**Due Date of Income Tax Returns:** In connection with the Income Tax Returns applicable to income received during the year ending December 31, 1952 by Individuals, Partnerships and Fiduciaries, the Commissioner of Corporations and Taxation issued notices which read in part, as follows:

- "1. File your return in January on the form bearing your stenciled name and address."

This notice would appear to indicate that the tax returns indicated were due in January 1953. Actually these returns were authorized to be filed on or before April 15, 1953 by Chapter 623 of the Acts of 1952 which reads, as follows:

"SECTION 1. Chapter 816 of the acts of 1950 is hereby amended by striking out section 3A, inserted by section 2 of chapter 750 of the acts of 1951, and inserting in place thereof the following:- Section 3A. Returns relating to the income received during the year ending on December thirty-



"first, nineteen hundred and fifty-two, and required to be filed on or before March first under the provisions of section twenty-four of chapter sixty-two of the General Laws shall be filed on or before April fifteenth in the year nineteen hundred and fifty-three, notwithstanding the provisions of said section twenty-four of said chapter sixty-two. So much of said tax as is not paid at its due date shall bear interest from said date at the rate of one half of one per cent per month, or major fraction thereof, until it is paid. ...."

It is suggested that the Department issue notices to taxpayers which are not misleading.

**Interest Paid and Received:** At the present time interest is collected on overdue accounts at the rate of 6 $\frac{1}{2}$  per annum, and is paid on amounts refunded at the same rate. Inasmuch as the prevailing bank interest rate is substantially lower than this amount, it is suggested that steps be taken to reduce this rate to one that is more consistent with that which obtains in industry. With the present rates remaining in effect, it is conceivable that concerns might deliberately overpay their taxes in substantial sums knowing that at some later date they would receive proper refunds together with interest in amounts which could not be realized on ordinary investments.

During the current audit period several large abatements were made of corporate taxes. For purposes of illustration, the following examples are shown of individual amounts of the original taxes together with the respective interest abatements:

<u>Tax Year</u>	<u>Tax Abated</u>	<u>Interest</u>	<u>Total</u>
1942	\$11,887 07	\$7,233 28	\$19,120 35
1943	12,520 02	6,869 32	19,389 34
1944	10,518 76	5,255 87	15,774 63
1947	12,248 05	3,600 92	15,848 97
1948	33,388 25	7,161 78	40,550 03
1948	10,702 52	2,099 48	12,802 00

**Abatements of Cigarette Excise Taxes:** The commissioner has great discretionary powers in making abatements and refunds of cigarette excise taxes as provided by Section 6 of Chapter 64C of the General Laws:

"... An abatement or refund of the excise provided by this chapter may be made by the commissioner for such causes as the commissioner may deem expedient. The commissioner shall certify said amount to the comptroller and the state treasurer shall pay said amount without any appropriation therefor by the general court, out of the proceeds of such excise.."

Abatements are made to cover taxpayer's loss of excise through bad accounts, loss of excise through thefts, and for other costs incurred in the collection of the excise tax. Abatements are initiated at the request of the licensee through the medium of an "Application for Abatement". The amount of abatement generally is determined by the Division Director based on the amount of tax collections and conditions known about the licensee. All such abatements are then submitted for the approval of the commissioner before becoming official. For the year ended November 30, 1952 the total collections from cigarette excise taxes was \$27,837,349.33. The total abatements for the same period amounted to \$434,712.05, and represents 1.56% of the tax collections. Other New England states collect this excise through the stamp tax method. They allow a percentage of the face value of stamps sold to cover such taxpayers' losses and expenses. The amount of allowance varies from state to state from 3 1/2% to 5%. All taxpayers within a state are allowed the same fixed rate.

Massachusetts does not employ the stamp tax method of collecting this tax. Instead, taxpayers are required to file monthly information reports which are accompanied by a payment for the tax on sales for the particular month. Abatements, however, are applied for by application of the licensee and may include a period of one or more years. This method has merit in that it is apparently less costly than the stamp tax method. There are, however, certain features that are open to criticism. The mere fact that an application for abatement may be denied altogether or that one licensee may be awarded a relatively larger abatement than another affords some idea of the control that the commissioner may exercise. It is suggested that possibly such wide discretionary power and control over concerns is not necessary.

**Alcoholic Beverages Excise:** A prior audit report stated that on June 30, 1952 a balance of \$179,238.57 was due from a bankrupt manufacturer for alcoholic beverage excise taxes. On this account \$29,632.54 has since been applied and represented payments received from insurance companies which had provided bonds for that concern. The outstanding balance on June 30, 1953 was \$149,606.03. A portion of this amount may possibly be recovered by liquidation of the company's assets through bankruptcy proceedings. It is estimated, however, that the resulting loss of excise tax revenue from this account will be in excess of \$100,000.00.

**Meals Excise Tax:** The total amount due for meals excise taxes reflected on the records in the Collections Division was \$176,878.72 as of November 30, 1952. Of this amount \$130,673.74 was due from 33 taxpayers whose accounts indicate balances in excess of \$1,000.00 each. Some of the larger individual balances are listed below:

Taxpayer A	\$25,129 51
Taxpayer B	20,921 17
Taxpayer C	12,594 42 (In Bankruptcy)
Taxpayer D	6,114 99
Taxpayer E	4,818 56
Taxpayer F	4,358 56
Taxpayer G	4,279 63
Taxpayer H	4,148 77

Section 6 of Chapter 64B of the General Laws permits the commissioner to require bonding of taxpayers:

"..... Any taxpayer shall file with the commissioner, if so required by him at any time, a bond, running to the commonwealth, in a penal sum determined, and in a form approved, by the commissioner, executed by such taxpayer and by a surety company authorized to do business in the commonwealth as surety, and conditioned upon the payment of any excise or penalties due or which may become due from such taxpayer under this chapter."

Although such bonds have been required and furnished in the past by a few taxpayers there appears to be no taxpayers' bonds in effect at the present time.

It is suggested that the commissioner take advantage of this statute to indemnify the commonwealth against loss of revenue from this source, by requiring certain taxpayers to furnish such a bond.

**Accounts with Attorney General for Collection:** Because the Director of Taxes in this Department now has authority, in all types of taxes except Inheritance Taxes, to issue demands and warrants for the collection of taxes, the only types of taxes now with the Attorney General for collection are Inheritance Tax cases.

The records in the Office of the Collector showed that as of November 30, 1952 there were 235 Inheritance Tax cases totaling \$51,179.47 with the Attorney General for collection. An effort was made to check these cases with the records in the Office of the Attorney General, and 189 of these accounts could not be located. A list of these latter cases was given to the Collector's Office with the suggestion that they be resubmitted.

At present the accounts with the Attorney General for collection are not segregated but are included with the active accounts receivable. It is suggested that they be removed from the active section of the ledger and placed in a suspense section as required by instructions in the Comptroller's Accounting Manual on page 49.

An analysis of those cases shown by the records in the Collector's Office as being with the Attorney General follows:

<u>Year</u>	<u>Number of Cases</u>	<u>Balances</u>
1945	5	\$ 431 00
1944	9	1,034 45
1943	20	2,411 19
1942	17	2,224 97
1941	17	2,394 66
1940	13	3,797 79
1939	12	4,904 64
1938	11	1,805 37



1937	10	\$ 3,849 44
1936	6	1,511 10
1935	6	1,007 57
1934	8	1,050 95
1933	11	3,395 40
1932	11	2,351 51
1931	15	3,560 50
1930	13	5,547 23
1929	8	1,011 19
1928	3	1,948 70
1927	10	1,592 90
1926	9	1,240 82
1925	8	2,781 45
1924	5	411 47
1923	5	544 39
1921	2	50 23
1912	1	320 55
Total	<u>235</u>	<u>\$51,179 47</u>

Inheritance Taxes - Active Accounts Receivable: The active accounts receivable were aged as of November 30, 1952. This analysis follows:

Year	<u>Debits</u>		<u>Credits</u>	
	Number of Cases	Balance	Number of Cases	Balance
1952	391	\$320,123 54	39	\$10,207 04
1951	210	84,321 97	23	10,247 83
1950	147	61,381 00	20	7,308 12
1949	109	37,951 48	4	7 16
1948	102	28,964 00	4	913 90
1947	90	18,072 36	2	8,449 67
1946	59	18,567 84	-	-
1945	41	25,754 44	1	9,660 11
1944	32	4,831 81	-	-
1943	38	8,164 07	-	-
1942	30	4,746 67	-	-
1941	23	4,491 41	-	-
1940	22	5,856 08	1	5 50
1939	27	10,167 01	-	-
1938 and older	173	52,010 30	1	18 27
	<u>1,494</u>	<u>\$685,403 98</u>	<u>95</u>	<u>\$46,817 60</u>

It is suggested that these accounts be reviewed and those on which the Department has exhausted all means of collection be referred to the Attorney General for disposition.

Remittances in payment of Inheritance Taxes are received in the first instance by the Inheritance Tax Division and later transmitted to the Collector's Office. Apparently, on occasion there is a considerable delay in forwarding the remittances because they are not sent to the Collector's Office until all computations have been completed. It is suggested that some method be provided so that all remittances will be sent to the Collector's Office promptly.

Abatements - Miscellaneous Taxes: Attention again is called to the fact that in each of the last eight tax years, which have been audited, abatements of Miscellaneous Taxes totaled in excess of \$5,000,000.00. In this connection the following is shown:

<u>Twelve Months Ended</u>	<u>Assessments</u>	<u>Abatements</u>	<u>Per Cent</u>
November 30, 1945	\$ 97,685,257 80	\$ 5,571,129 81	5.7
1946	135,261,675 82	6,495,446 50	4.7
1947	140,326,744 14	5,077,973 03	3.6
1948	169,050,753 77	6,407,324 23	3.8
1949	172,239,096 62	9,907,379 11	5.8
1950	176,692,273 68	10,576,836 40	5.9

November 30, 1951	\$199,619,208 49	\$ 7,693,067 75	3.9
1952	220,123,147 76	5,607,924 45	2.5

Because of the fact that statutes specifically preclude any examination of the individual abatement applications, the totals in the foregoing statement have been accepted without verification for this purpose.

It is understood that these abatements have been allowed through several channels, e.g., the Appellate Tax Board, the various courts, the Commissioner of Corporations and Taxation and/or at the suggestion of the Directors of any one of the several divisions within the Department.

It is also believed that a large percentage of these items have been occasioned by the system which permits arbitrary assessments under certain conditions. In this connection it can only be presumed, since post audit is forbidden, that the several safeguards normally provided by a good system of internal control have been properly exercised.

Old Age Assistance Payment: The previous audit report stated:

"Attention is directed to the following item contained in Chapter 310 of the Acts of 1952:

'3601-30 -- Notwithstanding the provisions of section ten of chapter sixty-four B of the General Laws regulating payments from receipts under said chapter to cities and towns, heretofore made without appropriation, a sum not exceeding one million nine hundred and fifty thousand dollars is hereby appropriated from the Old Age Assistance Fund for such payments, and the total amounts to be paid by the state treasurer on or before November twentieth, nineteen hundred and fifty-two, from the sum herein appropriated, shall be not less than one million dollars ..... \$1,950,000.00.'

"Despite the mandatory provisions of this section, the million dollars ordered to be paid to the cities and towns on November 20, 1952 was not paid by the Commissioner."

It was noted in this connection that \$1,000,000.00 was distributed to the cities and towns on December 20, 1952 and \$950,000.00 to the cities and towns on April 22, 1953.

Collection Division - Warrants Collected: For the twelve month period ended November 30, 1952, collections from these sources totaling \$684,363.19 were made on the basis of 7,258 cases as follows:

Taxes	\$665,957 79
Interest	14,622 95
Cost	3,782 45
	<u>\$684,363 19</u>

Rents Paid: The following represents the lengths of the leases and the annual rents for the premises used by this Department in Boston:

Location	Term	Expiration Date	Annual Rental
40 Court Street	3 Years	June 30, 1954	\$100,705 00
40 Court Street, Option to Renew	2 Years	June 30, 1956	112,789 60
42 Court Street Basement	5 Years	June 30, 1956	3,000 00
Bowdoin Square Garage	5 Years	Sept. 1, 1955	16,400 00
18 Tremont Street	5 Years	July 1, 1958	40,162 44

Weekly Time Records: It was noted in four of the divisions within this Department that incomplete information is given to the pay roll section with respect particularly to the daily time and work reports. Because of the absence of complete records, it is impossible to maintain accurate vacation and sick leave records as is required by Section 7 of Chapter 7 of the Tercentenary Edition of the General Laws, as amended.

## TEWKSBURY STATE HOSPITAL AND INFIRMARY

REPORT NO. 54-3

General: The past several audit reports of this institution have indicated that the regular examinations, which have been performed by this Department, have been hampered and unnecessarily delayed because of the shortcomings in the maintenance of its accounts and records. These conditions have, on several previous occasions been brought to the attention of all who are concerned and should be interested in the affairs of this institution. Normally some improvements should have been shown in these respects, yet in connection with the current examination, the conditions noted in prior years appear to have degenerated to such a point that the records for the most part may be described as being in a chaotic condition. As a result it has rendered the routine completion of this audit definitely impossible and practically all of the time consumed for this present examination was worked in a vain attempt to ascertain by construction what the various account balances were or should have been. As examples of the difficult conditions which were noted the following is shown:

1. The General Ledger was two months delinquent in posting.
2. The Accounts Receivable Ledger had been posted only through May 1953, rendering it impossible to determine from that record a trial balance of Accounts Receivable as of the date of audit.
3. Many entries in the State Cash Book had been defaced or obliterated.
4. No trial balance of the Patients' Funds had been taken by the Institution for more than two years. The only trial balances of the Patients' Funds taken during this period have been those compiled by the Department of the Auditor in connection with routine audits.
5. Records of the Community Store were in such condition that it was more than two months before the physical inventory as of July 1, 1953 could be reconciled with the book inventory.
6. Records were not properly filed and in several instances it was impossible to have them available for audit.
7. Voided sales slips were not filed with the duplicates. This is a poor accounting procedure and reflects on the internal accounting control routines of this institution.
8. Account balances in the monthly financial reports were not in agreement as reported in the respective pages of these reports.
9. Funds of Deceased and Discharged Patients were transmitted to the State Treasurer as income and not as trust funds. This money represents the balances of the patients' monies after proper charges for board had been deducted.
10. The monthly financial report and the General Ledger showed different balances from that of the Comptroller's Bureau in the Special Appropriations Account as of June 30, 1953.
11. Fiscal year 1952 advance money was not returned to the State Treasurer until January 1953. This money should have been returned on June 30, 1952.
12. An item of \$34,380.89 was posted in the State Cash Book after the State Cash Book had been closed in connection with the previous audit.
13. Sundry amounts of cash received during the audit period were deposited in the bank account but no comparable entries were made in the Cash Book.
14. Several checks outstanding for more than one year were not voided. These checks include many which have been outstanding for more than seven years.



15. Cash of the various Institution funds have been intermingled and confused in several instances.

16. The sales slips and the recording of income are improperly handled.

**Balancing of Cash:** The following schedule indicates the variances noted in connection with the balancing of the several cash accounts as of the date of audit July 1, 1953:

<u>Account</u>	<u>Shortages</u>	<u>Overages</u>
State	\$141 19	-
Patients	118 94	-
Post Office Box	14 14	-
Locker Key	-	\$ 29 27
	<u>\$274 27</u>	<u>\$ 29 27</u>
Net Shortages	-	245 00
	<u>\$274 27</u>	<u>\$274 27</u>

**Outstanding Checks:** Attention is again directed to the fact that there were still outstanding in the various bank accounts, checks which had been outstanding for a period in excess of one year. In this connection the Comptroller's Bureau Accounting Manual on page 58, paragraph H states:

"Fund Receipts - Unpaid Checks - A spending agency must stop payment on all checks (except those issued for salaries or wages) which have been issued payable from the Commonwealth's funds and have not been cashed by the payee within one year from the date of their issue. These amounts must be paid into the State Treasury to be credited to the Unpaid Check Fund. In the case of checks issued on account of salaries or wages, payment must be stopped three months after the date of issue."

It is therefore again suggested that the checks be disposed of in accordance with the foregoing.

**State Cash:** It was noted that the state cash balance was reflected as of July 1, 1953 in three different amounts, as follows:

Cash on Hand and in Bank	\$14,535 64
Balance per Cash Book	14,676 83
Balance per General Ledger	15,076 68

These amounts, of course should have been in agreement. The difference between the Cash Book and the General Ledger of \$400.15 was caused by Journal entries which had not been recorded in the Cash Book. The Journal entry was made in error and it should be adjusted as the same item was subsequently recorded in the General Ledger Cash account through a direct cash book posting.

The cash shortage found on the date of audit was \$141.19 as was indicated earlier in this report. The cash shortage on the date of the previous audit was \$409.05 indicating that in a period of approximately seven and one half months it had been reduced by \$267.86. In an effort to ascertain the cause for this variance, it was noted that this amount had been deposited in the bank in excess of that which was recorded as receipts in the state cash book.

An attempt was also made to identify the dates when the bank deposits differed from the recorded receipts in the cash book. In this connection it was immediately apparent that the cash book receipts and the bank deposits had absolutely no relation to each other. It also became obvious in this connection that patients' money and State income funds were confused and intermingled. Patients' money was frequently deposited in the State bank account and on many occasions State cash was used for patients' fund purposes without making the necessary identifying entries. Because of this flagrant disregard for proper record keeping the State cash account as well as the patients' cash account finally reached their present conditions and any attempt to completely identify the correct receipts and deposits of these accounts would be a completely wasted effort.

A determined effort must be made to take immediate steps to curb these practices.

It was also noted that in the process of closing the various cash books the items designated as "cash on hand" appeared only as a balancing figure and did not represent the

actual count of the cash on hand. This practice cannot be condoned and should cease forthwith.

In further connection with this matter attention is directed to the fact that the schedules which are appended to this report with respect to receipts and disbursements of cash represent the cash books as maintained by the institution after taking into consideration the several adjustments which were developed during the course of this examination.

Checks and Cash Found in the Treasurer's Office: Attention is directed to the fact that on the date of audit there was found in the treasurer's office a box containing 37 checks and \$42.17 in currency which had not been processed in the ordinary routine of business. These checks were dated from 1947 to May 29, 1953. The following shows an analysis of the checks and currency found in this box:

<u>Checks</u>	<u>Number of Checks</u>	<u>Amount</u>
Source:		
Pay Roll	26	\$240 19
Income	1	36
Patients' Funds	1	53 01
Escrow Retirement	9	82 56
	<u>37</u>	<u>\$376 12</u>
<u>Currency</u>		
Source:		
Refunds Prior Years - Income		\$15 00
Patients' Cash		27 17
		<u>\$42 17</u>

The methods of handling the entries for the foregoing transactions are not involved and have been matters of routine policy for many years. It is suggested that these items be disposed of in accordance with accepted routines and procedures immediately.

State Cash - Advance Money: It was noted that the advance money for the 1952 fiscal year was not returned to the State Treasurer until January 1953. This money should have been returned to the State Treasurer on or about June 30, 1952. It was further noted that the 1953 advance money was not returned until late in August of 1953. This tardiness in the returning of advance money by this institution is decidedly improper and is obviously the result of inefficient operation. As an indirect result certain financial statements of the Commonwealth as prepared by the Comptroller's Bureau are incorrect because when advance money is returned after its due date it results in these financial reports being overstated with respect to its yearly expenditures - in the following year the income is correspondingly overstated.

Pay Roll Bank Account Reconciliation: In connection with the past several audits much difficulty has been experienced in attempting to reconcile the pay roll bank account. Even though this account was finally reconciled as of July 1, 1953, it was accomplished only after two items were accepted even though they were not satisfactorily explained. These items were designated as "Previous Errors" in the amount of \$43.73 and "Lost Checks" in the amount of \$109.98. An organized effort should be immediately made to identify and adjust these items.

In further connection with this matter it was noted that a few of the so-called "Lost Checks" were found in the treasurer's office and have been referred to in a previous comment.

It is also suggested that those employees who prepare the pay roll should also reconcile the pay roll bank account so that as errors are located they can be adjusted immediately and not be permitted to continue indefinitely.

Institution Income: Because the Accounts Receivable ledger had been posted only through the month of May 1953, it was necessary to ignore it in establishing the income charges and credits for the audit period.

The analysis of the sales in the Accounts Receivable account in the General Ledger did not agree with the analysis of the sales slips for the audit period. Schedule No. III, the Income Statement, appended to this report was prepared from the Accounts Receivable account in the General Ledger. Inasmuch as the basis for the entries to the General



Ledger Accounts Receivable account is the sales slips it is most evident that proper care is not being exercised at this institution in the collection and recording of income.

Attention is also directed to the fact that because it was impossible to identify outstanding balances, no effort was made in connection with this examination to mail notices requesting confirmation of balances due.

Funds of Patients Deceased or Discharged over Seven Years: It was noted that funds totaling \$885.32 belonging to deceased or discharged patients, which had been on hand more than seven years had been recorded on the books and was transmitted to the State Treasurer as income. This amount represented the Patients' Funds in excess of charges made for board. It is suggested that henceforth such funds be handled in conformance with Section 2C of Chapter 122 of the Tercentenary Edition of the General Laws, as amended, which provides for the disposition of these items.

Patients' Funds - Balance of Cash: In balancing the Patients' Funds Cash it was noted that a shortage of \$118.94 existed in relation to the patients' cash book balance. It was further noted that one of the bank accounts was overstated by \$138.00. This latter amount, however, was not considered in the balancing of the cash in connection with the current examination. As a matter of information there was a cash shortage noted in connection with the previous examination in the amount of \$188.67.

Patients' Cash Book Errors: The following errors were noted in connection with the audit of the Patients' Fund Cash Book for the period under audit:

- \$ 03 overstatement of payments at page 79 November 1952
- 3 00 overstatement of receipts at page 136 March 1953
- 40 00 understatement of receipts at page 150 April 1953
- 201 00 understatement of payments at page 165 May 1953

Deposits of Patients' Funds: Attention is directed to the fact that the cash on hand of these funds as of the date of audit totaled \$32,011.03 and of this amount, approximately \$21,200.00 was on deposit in three commercial accounts where they are earning no interest. It is again suggested that steps be taken to deposit or invest these funds in excess of that amount which is required for normal working purposes so that interest may be earned.

Patients' Trial Balance: The trial balance of the individual patients' accounts exceeded the cash book balance in the amount of \$539.84. In this connection the following were noted:

1. The trial balance was taken in connection with this examination as of the close of business June 30, 1953. This operation was found to be difficult because approximately 250 withdrawals which were to have been made on July 3, 1953 had been deducted from the individual ledger balances during the last week of June, prior to the actual disbursements of the cash.
2. The patients' cards were in a state of confusion. Partially used cards were discarded and the forwarding of balances was not completed on the new cards.
3. Transactions recorded in the patients' cash book are posted to the individual accounts but the entries of the cash book page numbers as references were not made.
4. In several instances receipts and disbursements were recorded as group totals in the cash book. The analysis of the individual patients concerned was written on a sheet of paper and attached to the sales slips. It is suggested that receipts and disbursements be recorded in the cash book for each patient.

Accounts with Patients no Longer in Institution: The accounts with patients were all analyzed and it was noted that approximately 48% of the fund balance was in the names of patients who were deceased, discharged or escaped. This condition certainly indicates a complete lack of co-operation between the discharge office and the treasurer's office. The co-ordination of these two offices with respect to this function should be immediately effected.



It is also again recommended that immediate steps be taken to return these funds to their proper owners. In instances where this is impossible, they should be disposed of in accordance with existing statutes, etc.

**Patients' Funds Balances:** In this connection it was noted that the records as constituted indicated three different balances as of July 1, 1953 for Patients' Fund Cash on Hand. These amounts, which obviously should have been identical, were represented as follows:

Patients' Cash on Hand	\$32,011 03
Patients' Cash Balance per Cash Book	32,129 97
Trial Balance of Patients' Cards	32,669 81

**Patients' Bank Interest:** It was noted that there was \$470.96 of savings bank interest on hand as part of the Patients' Cash balance. It is again suggested that this money be transferred to the State Treasurer as income.

**Patients' Bankbooks:** It was noted that there were 26 patients' bankbooks on hand for patients who were deceased or had been discharged over a period in excess of two years. In this connection Section 2E of Chapter 295 of the Acts of 1936, as amended, provides for the proper handling of such items and it is suggested again that steps be taken to dispose of them in accordance with this statute.

**Patients' Old Age and Social Security Checks:** It is suggested that the system for handling individual patients' Old Age Assistance and Social Security checks be improved. At the present time some of the funds are received directly by the institution while others are received in Boston at the office of the State Department of Public Welfare. Certain of these receipts are recorded in the cash book of the institution and others in the cash book of that Department. Apparently the amounts to be recorded as institution income and/or part of the patients' funds is determined by representatives of the Department of Public Welfare. It is obvious that this divided authority in the bookkeeping of the patients' board is unnecessarily intricate, and it is accordingly suggested that all such board and patients' money be processed by this institution so that all the necessary information will always be available there.

**Patients' Funds - General:** Attention is directed to the fact that patients' funds in the hands of this institution are in the nature of trust funds. Because of this, institution officers and personnel who are required to process patients' funds are fiduciaries. The duty owed by fiduciary personnel is that of the highest degree of care, and it is evident that the duty owed toward these funds is even higher than the great duty of care in the handling of the Commonwealth's funds.

Certainly, based on the conditions as represented herein, the processing, handling and recording of patients' funds in this institution does not reflect such an attitude of due care, and the control of the funds is most inefficiently managed. It is advised that this institution adopt at once the attitude of a true fiduciary and take steps to improve its system of handling patients' monies.

**Financial Reports:** In reviewing the monthly financial reports for the period under examination it was noted that there were several that included obvious errors. The following demonstrates specific instances of variances in these reports:

Financial Report Date	Page 7	Cash Page 9
November 30, 1952	\$ 83,040 70	\$ 83,440 55
December 31, 1952	144,363 70	144,763 55
January 31, 1953	217,157 13	217,556 98
February 28, 1953	220,215 72	220,615 57
March 31, 1953	107,262 48	107,662 33
April 30, 1953	90,369 19	90,769 04
May 31, 1953	54,321 78	54,721 63
June 30, 1953	14,676 83	15,076 68

These financial reports are transmitted to the Department of Public Welfare, the Budget Bureau and the Comptroller's Bureau. The Comptroller's Bureau is charged with the supervision of the bookkeeping system of the agencies of the Commonwealth and there

was no correspondence on file to indicate that these obvious errors in the institution's financial reports had been corrected or criticized by that agency.

In addition to the foregoing the Accounts Receivable Balances showed in certain monthly reports credit balances which were also obviously misstated the following:

December 1952	\$34,564 34
January 1953	66,131 25
February 1953	96,130 29

Special Appropriations: Because of the confused state of the records; Schedule No. IX, Special Appropriations, which is appended to this report was prepared from the records in the Comptroller's Bureau. As a matter of record the following indicates the varied balances in this account as of June 30, 1953 in records which should all be in agreement.

Balance per Comptroller's Records	\$385,246 80
Balance - Institution's Financial Report June 30, 1953:	
Page 1	308,930 15
Page 9	390,275 53

The differences indicated by the foregoing should forthwith be identified and adjusted.

Community Store - Cash Book: It was noted that the cash book disbursements had only been posted to June 4, 1953 and it became necessary to reconstruct the disbursements from that date to the date of the audit to establish the balance of cash for audit purposes.

The cash book should be posted currently and the cash should be balanced daily in accordance with accepted accounting practices.

As a matter of information it was noted on September 15, 1953 that no entries had been made in the cash book beyond June 30, 1953, and all items of receipts and disbursements have been maintained since that date in various memorandum records. It is therefore urged that the cash book be used as the book of original entry.

Community Store - Outstanding Checks: The previous audit report stated in this connection:

"It was noted that there are 9 checks outstanding in this account which have been outstanding prior to the 1949 fiscal year. Arrangements should be made to stop payment on them and add the proceeds to the Community Store Fund."

Inasmuch as this condition persists, the foregoing suggestion is repeated.

Community Store - Inventory: A complete physical inventory of merchandise was taken on the date of audit. The normal audit procedure is to reconcile this physical inventory with a computed book inventory as of the same date. This however could not be accomplished until September 8, 1953, approximately two months after the physical inventory had been completed. The explanation offered was that the paid bills for the month of June, had been misplaced after the checks were issued and therefore, they could not be marked up in the usual manner to provide the necessary information for purposes of computing the book inventory. It was necessary to request duplicate bills from the several vendors before a book inventory could be established with any degree of accuracy.

After compiling the book inventory, a shortage of \$1,076.00 (3.7%) existed against sales for the period under examination of \$28,714.58.

Community Store - Payments for Merchandise: On a test basis of one month of the payments to vendors, two duplicate payments totaling \$71.41 were noted. The errors were made by making payments, recording the payment on the delivery slips and later making payment when the monthly invoice was received. Greater care should be exercised in the payment of invoices and delivery slips should be attached so that duplicate payments will not be possible.



support of patients at this institution. This money is recorded as income to the Commonwealth's Veterans' Service Fund when notification to that effect is received from the State Treasurer, to whom all checks are sent directly by the United States Treasury. On the date of this audit there was due to the Commonwealth \$77,168.13 representing the amount billed the United States Government for the Board and care of Patients for the period from April 1, 1953 to June 30, 1953. This money will be credited as income of the 1954 fiscal year as it is the practice not to record these items as income until the money is actually received by the State Treasurer.

**Accounts Receivable:** Under authority granted by Chapters 501 and 687 of the Acts of 1951 and Chapter 296 of the Acts of 1952, the Trustees are authorized to enter into certain contracts with hospital service corporations and with insurance companies and associations furnishing hospital services, with respect to hospital services for qualified veterans. During the period under audit collections from those organizations amounted to \$116,824.29.

In connection with this income it was noted that no Accounts Receivable ledger is being maintained. It was again noted that it is still the practice to record this income on the books only when collections are made.

**Patients Receiving Assistance Under Public Law 149:** On March 13, 1952, the Board of Trustees authorized the Commandant to collect the difference between the patients' basic pension and the allowance of \$129.00 received monthly under Public Law 149. This difference, representing care and attendance allowance, is allowed for the purpose of providing attendance of another person to aid and care for the veteran recipient because of his condition. The payment of this allowance to the Soldiers' Home during the patients' hospitalization became effective in July 1952. One half of the money collected from patients under this law is returned to the Federal Government.

In further connection with this matter it was noted that certain Accounts Receivable have been adjusted on the records. An analysis of these adjustments indicates that in all but five instances they were merely for adjustments of erroneous charges. The remaining five cases appear to have been charge-offs of balances. As no record of any authority was indicated as having been received from the Attorney General to charge off these accounts, it is recommended that these charges be reviewed and they be disposed of in accordance with the procedures outlined in the Accounting Manual of the Comptroller's Bureau.

**Materials and Supplies:** Previous audit reports have stated that sheets, pillow cases and several other items of inventory were not being included in the stock ledger as part of the Materials and Supplies balance. It was noted that this arrangement has been corrected and these items are now properly carried in the stock ledger.

It was further noted that similar items purchased for the new hospital with Special Appropriation funds are also controlled through the stock ledger in memorandum accounts.

**Legacy Fund - New Bequest:** It was noted that a check was received on July 2, 1953 for \$1,385.60 from the Estate of William J. Jennings, a former patient, as a bequest to the Legacy Fund. This money was authorized to be paid to the Soldiers' Home under Article Two of the last will of the deceased.

**Canteen:** The canteen at this institution is privately owned and operated. No rent is paid for the space occupied by this concession and no audit was made of its records. In this connection, it was noted that a monthly donation is being made by the canteen operator to the "Donation Account" of the institution.

In view of the substantial investment made by the Commonwealth in equipping the canteen in the new hospital, it is again suggested that study be made to determine whether this new canteen shall be privately operated or whether all profits accruing shall be expended for the benefit of patients.

**Patients' Funds - Disbursements:** It was noted that certain patients do not sign receipts upon receipt of their cash. In several cases only the signature of the individual who disbursed the cash was evident. It is recommended that a third person, who is not an employee of the disbursing office, countersign all receipts in all instances where the person receiving the cash is unable to do so. This procedure should result in better accounting control.

**Patients' Funds - Monthly Trial Balance:** The permanent records maintained for the control of patients' deposits are on ledger cards. The loss of one of these cards



might cause considerable confusion as it would be difficult to replace. It is, therefore, recommended that a monthly trial balance of these account cards be also carried as an additional permanent record.

**Donation Fund - Bank Interest:** As recommended in previous audit reports, funds have been transferred to depositories where they are earning interest.

**Deceased Patients' Funds:** An analysis of the Patients' Funds balance on the date of audit indicated that \$4,913.75 represented balances of accounts of deceased patients, all of whom died in 1953. Accounts of patients who died in prior years have been disposed of.

**Cigarette Account:** Under an agreement between the Soldiers' Home in Massachusetts and the Chief of Special Services at the West Roxbury Veterans' Administration Hospital, this institution is permitted to purchase tax-free cigarettes from that veterans' hospital to be resold at a very small profit to veterans' organizations for free distribution to patients. Under this plan, the Soldiers' Home makes the checks payable directly to the Treasurer of the United States. The cigarettes are delivered to an officer of the institution who acts as custodian and the cigarettes are distributed to the patients in the name of the veterans' organization to whom the tax-free cigarettes have been sold. This selling price at a small profit for these cigarettes to veterans' organizations is in accordance with the national policy of Veterans' Administration Hospitals of providing for losses resulting from pilferage, breakage and other damages from handling.

#### STATE FARM AT BRIDGEWATER

REPORT NO. 54-5

**Farm Operations:** It was noted that the farm reported a loss of \$3,235.42 from operations for the year 1952, whereas in 1951 a profit of \$21,311.38 was reported. This situation was attributed to increases in the cost of labor and materials, as well as poor growing conditions.

**Patient's War Savings Bond:** Reference was made in the previous audit report to a \$25.00 War Savings Bond which belonged to a deceased patient. Inasmuch as nothing has been done in this regard, it is again suggested that this matter be referred to the Attorney General of the Commonwealth for disposition.

**Inmate's Bankbook:** It is suggested that a bankbook belonging to inmate No. 26544 be sent to the bank concerned for verification and also to have the accumulated interest entered.

#### LYMAN SCHOOL FOR BOYS

REPORT NO. 54-6

**Certain Records Not Being Currently Maintained:** On the date of the current examination, it was noted that certain accounts in the general ledger had not been posted since September 1952, consequently no trial balances had been taken nor had financial reports been prepared since that date. Because of this the progress of the current examination was considerably hindered. It is, therefore, recommended that arrangements be made to keep all records on a current basis since their value is impaired otherwise.

**Excessive Amount of Cash on Hand:** In balancing the State cash on date of audit, there was found on hand \$66,225.10, comprised of \$1,616.64 in currency and coin and \$64,608.46 in checks. This would appear to be an excessive amount as the need for such amounts of cash in an institution of this type rarely occurs. This cash should have been deposited; and this delay resulted in a temporary overdrawing of the bank account.

It is therefore recommended that bank deposits be made more regularly so that the cash in the office will be always at a strict minimum.

**Farm Reports:** A previous audit report commented in some detail regarding the 1949 farm report, with particular emphasis on the disagreement between the farm costs as shown on the farm report and the farm costs as shown on the financial report. Attention was also directed to the fact that the 1950 and 1951 farm reports had not been prepared on the date of the previous audit.

It was noted in this connection that on the date of the current examination, farm reports for the 1950, 1951 and 1952 farm years had been prepared.

It was again noted, however, that the farm costs as shown on the financial reports did not agree with comparable items in the farm reports.

**Sales of Animals Not Billed:** In checking the sales of animals from the herd records to corresponding charges in the accounts receivable ledger all transactions were traced with two exceptions; the sale of nine cows to the Medfield State Hospital and the sale of two calves to the Department of Public Health, Biological Laboratory.

It was learned that the sale of the two calves to the Department of Public Health had been approved at the rate of \$.18 per pound liveweight. This matter was discussed with the head farmer of this institution who stated that because the institution's scale was out of order the calves were not weighed at the time of shipment to the purchaser. He further explained that the Department of Public Health was supposed to weigh the animals at its laboratory and advise the institution of the correct weight so that a proper billing could be made. Billings were finally made while this audit was in progress.

**Sales of Milk to Other State Institutions Not Billed:** It was noted that certain sales of milk to the Westboro State Hospital had not been so charged in the financial records. This matter was called to the attention of the institution's steward. As a result an effort is being made to dispose of this matter, as is shown by the following copies of correspondence on file:

COPY

July 15, 1953

Mr. H. A. Yeaton  
Westboro State Hospital  
Westboro, Mass.

Dear Sir:

The audit of our 1950 and 1951 farm records made at the present time shows sales of milk to your institution as listed below for which charges were not set up and we have no record of billing you or receiving payment.

December, 1950	1623.72 quarts
January, 1951	372.09 quarts
March, 1951	822.79 quarts

Will you please furnish to us the figures on milk received by the Westboro State Hospital from the Lyman School for Boys during December-1950, January-1951, February-1951 also any payments made by you for milk received during these months.

Very truly yours,

JM ba

Steward

COPY

July 20, 1953

Mr. William V. FitzPatrick  
Business Agent  
Division of Youth Service  
14 Somerset Street  
Boston, Massachusetts

Dear Mr. FitzPatrick:

The Lyman School for Boys 1950 Farm Report presently under audit shows that whole milk produced by our herd as listed below was sent to the Westboro State Hospital.

December, 1950	1623.72 quarts
January, 1951	372.09 quarts
March, 1951	822.79 quarts

We were unable to find any written approval for this transfer when Mr. Mahoney, State Auditor, wished to check it and not having personal knowledge concerning, I contacted Mr. Yeaton, Westboro State Hospital Steward, to determine how he handled the

transfer and if he had any approval. Mr. Yeaton has no written approval on record but believed that the transfer would be made without charge as the milk was temporary surplus at Lyman School that Westboro State Hospital did not require at the time but could use. However, beginning in June, 1951, arrangements were made and approval was received for sale of our surplus milk to Westboro State Hospital at farm prices.

We do not know whether or not this matter had the necessary approval of Mr. George J. Cronin, Commissioner and Purchasing Agent, if not, I suggest approval be requested of the transfer without charge. A charge for the milk would create a deficiency for the Westboro State Hospital.

Very truly yours,

JM ba

Steward

It is, of course, obvious that these approvals should have been obtained prior to the sale or transfer. Steps should be taken to prevent a recurrence of this situation.

**Overcharge - Employee's Room Rent:** In this connection the previous audit report stated:

"It was noted that an employee had been overcharged for rent in the amount of \$4.82 and represents \$.11 per week for the period from September 18, 1951 to July 6, 1952. This matter was brought to the attention of the bookkeeper who indicated that it would be adjusted on a subsequent pay roll."

In this connection it was noted that this employee's account was adjusted for \$.44 only, of which \$.11 was applicable to the previous audit period and \$.33 to the interim period. This employee however is still entitled to a further credit of \$4.71 and it is understood that proper credit will be given on a subsequent pay roll.

**Charge Made for Printing of Pay Roll Checks by Bank:** The previous audit report stated:

"It was noted that a small charge was made by the bank for imprinting pay roll checks. In this connection the following exchange of correspondence between the institution and the Comptroller's Bureau is shown:

May 23, 1952

'Mr. Fred A. Moncewicz, Comptroller  
Comptroller's Bureau  
State House  
Boston, 33, Massachusetts

Dear Sir:

The First National Bank of Westboro in the past has supplied us blank checks without charge.

Mr. ----, President, has informed us that in the future no checks would be supplied without charge. There is at present a deduction of \$4.17 showing on our regular bank statement for a book of checks that we recently received.

We must have pay roll checks by the end of July. Will you please advise us as to the procedure to follow in securing them, also what is to be done about the \$4.17 charge at present on our bank statement.

Very truly yours,

/s/ Charles A. DuBois

Superintendent'



May 28, 1952

'Mr. Charles A. DuBois, Superintendent  
Lyman School for Boys  
Westboro, Massachusetts

Dear Sir:

We are in receipt of your letter of May 23, 1952 stating that Mr. ----, President of the First National Bank of Westboro has informed you that in the future no checks will be supplied to the institution without charge, and that there is at present a deduction of \$4.17 showing on your bank statement for a book of checks which you recently received.

The state does not and, insofar as I know, never has paid any bank in the Commonwealth for supplying the state or any of its agencies with checks and, I may also add, for service charges of any kind. We would suggest that this information be conveyed to Mr. ----, President of the Bank.

If my memory is correct, I believe that the Westboro State Hospital also banks at the First National Bank of Westboro, and possibly the Grafton State Hospital, and if this is so it would seem to me that the First National Bank should consider all of these accounts as deposits of the Commonwealth of Massachusetts.

I will be very glad to talk with Mr. ---- if there are any further questions.

The selection of a bank is an administrative matter of your institution and the Youth Service Board, therefore, other banking arrangements can be made if necessary, but the fact still remains that the Commonwealth does not pay for the supplying of checks or any service charge.

Very truly yours,

FRED A. MONCEWICZ  
Comptroller''

It was noted however that this charge has not been canceled by the bank and in addition \$74.84 has been charged by the bank to the pay roll bank account for the printing of pay roll checks during the current audit period.

Materials and Supplies - Coke Balance: In this connection the previous audit report commented as follows:

"This account indicated a balance of 114,700 lbs. valued at \$880.24 on June 30, 1952. In this connection attention is called to the fact that the physical inventory taken in conjunction with this examination revealed absolutely no inventory on hand. It was also learned that this situation has prevailed for a lengthy period of time. Coke is now purchased directly for certain cottages and is delivered to the point where it is to be used, by the vendor. These deliveries are entered in the stock ledger and are charged immediately to the particular cottage where it is to be used.

"It is suggested that the balances as appearing on the records be adjusted after proper approvals have been obtained."

It was noted that this matter had been adjusted on the records in August 1952, but the necessary approval of the Youth Service Board had not been obtained.

It was further noted that 2279 1/2 lbs. of bread flour with a value of \$120.86 was adjusted in June 1953 as a shortage on the records of the institution without the approval of the Youth Service Board. It was learned that this adjustment was occasioned by neglect in obtaining requisitions before issue.

During the course of this examination however, approvals were received from the Youth Service Board for the foregoing adjustments. In this connection, attention is called to the Comptroller's Bureau Accounting Manual regulation with regard to this matter which reads as follows:

"After the entry in the adjustment book has been prepared and approved by the steward, the superintendent must approve it before the correcting entries can be made in the stock ledger. An adjustment of a single item amounting to \$100.00 or more must be approved by both the superintendent and the department. The original and duplicate copies will bear these approvals."

Inmates' Fund - Funds of Discharged Inmate Not Transferred to State Treasurer: It was noted that there was one account belonging to an inmate who was born on December 25, 1923 and who was therefore 28 years old on December 25, 1951. This money should have been forwarded to the State Treasurer on November 30, 1952, the first November 30th subsequent to the inmate becoming 28 years old as is required by Section 23A of Chapter 120 of the Tercentenary Edition of the General Laws, as amended.

#### NORTHAMPTON STATE HOSPITAL

REPORT NO. 54-7

Advance Funds: It was noted that the following advance accounts had been overdrawn during the audit period:

<u>Date</u>	<u>Account No.</u>	<u>Amount Overdrawn</u>
August 1952	1718-00-02	\$ 126 47
January 1953	1718-00-02	1,131 94
November 1952	1718-00-10	33 14
May 1953	1718-00-12	3 64

It is recommended that the institution anticipate its requirements of advance funds.

Farm Accounts: The annual farm report for the 1952 farm year was examined and it was noted that the farm loss for the 1952 year amounted to \$24,247.16 as compared with a loss of only \$3,518.61 for the previous farm year.

Materials and Supplies: A test inventory of materials and supplies taken on July 28, 1953 in connection with this examination indicated overages of \$155.19 and shortages of \$19.89 on the total materials inventoried of \$59,010.95. During this audit period adjustments totaled \$1,533.19 on materials issued aggregating \$613,246.67. The reasons given for making the adjustments were reviewed and they were found to be normal and included expansion and shrinkage, spoilage and clerical errors.

#### UNIVERSITY OF MASSACHUSETTS

REPORT NO. 54-8

Receiving Teller's Cash Shortage: This audit was initiated immediately following receipt of a report from the College Treasurer on July 20, 1953, that the cash account of the receiving teller showed a shortage. After a detailed examination, this shortage was determined to have been \$3,628.08, for which reimbursement was made on July 23, 1953, to the College by the receiving teller concerned. The individual concerned acknowledged having used these funds and was permitted to resign his position a short time before the inception of this audit.

An examination disclosed that the shortages involved had been covered by temporarily withholding from deposit, paid student invoices from semester charges, etc. When the employee concerned, on subsequent occasions permitted these receipts to be recorded and properly deposited, he falsified the amounts of advances as recorded in the Teller's Proof Book. There was no evidence of collusion with any other employee.

The College Treasurer now has under consideration several suggestions which, when put into operation, will make a recurrence unlikely.

Advance to Receiving Teller from Trust and Agency Funds Not Accounted for Annually: The cash advance to the receiving teller is derived from two sources: State Funds and Trust and Agency Funds. In this connection it was noted that the advance from Trust and Agency Funds to the receiving teller totaled \$4,000.00. It was noted, however, that no accounting of this money had been made on either June 30, 1952 or on June 30,



1953, although the advance from State Funds was accounted for. As a matter of information, it is mentioned that it was in the combined total of amounts advanced from State Funds, and Trust and Agency Funds that the shortage in the teller's account finally appeared. Had such an accounting been required of the Receiving Teller, it is quite possible that the shortage would have come to light at an earlier date.

It is, therefore, recommended that this advance be returned promptly at the end of each fiscal year and that a new advance be withheld until a reasonable interval has elapsed.

**Delay in Transfer of Income Receipts to State Treasurer:** It was noted that the first transmittal of receipts during the month of July 1953 was made on July 23, 1953, when receipts totaling \$21,284.24 were transferred to the State Treasurer. In this connection, attention is directed to the fact that the receipts vouchers indicated that this income had been collected during the period July 1 - 11, 1953.

With reference to this matter attention is called to Section 27 of Chapter 30 of the General Laws, Tercentenary Edition, which reads as follows:

"Except as otherwise expressly provided, all fees or other money received on account of the commonwealth shall be paid daily into the treasury thereof, but if in the opinion of the commission on administration and finance and the state treasurer the interests of the commonwealth require, payments may be made weekly in accordance with such rules and regulations as the state treasurer may prescribe."

It is, therefore, recommended that steps be taken to comply with the aforementioned forthwith.

**Duplicate Bank Deposit Slips:** An attempt was made to trace items as recorded on duplicate bank deposit slips with the cash book receipts. In this connection it was noted that all bank deposit slips prepared during the audit period indicated only the total of all items deposited at that time. Inasmuch as a considerable volume of checks are deposited in this manner without identification, it was not possible to accomplish this.

It is, therefore, recommended that all deposit slips include sufficient information to identify the individual items deposited.

It was also noted that the copy of the duplicate bank deposit slip as receipted by the depository did not indicate any identification, date, or time of deposit. It is suggested that this matter be discussed with the bank and that possible arrangements can be made to provide a more modern bank receipt stamp.

**Prenumbered Tuition - Board - Rent Bills:** The following bills and receipts are prenumbered by the printer: Student Tuition, long form; Student Tuition, short form; Small Receipts, form 58.

After transactions are recorded on the foregoing forms and are entered in the student registration cash book, their identity is no longer controlled, because the same series of numbers are represented for each group. Inasmuch as the numbers begin with #1 each year and the payments overlap, the identity of payments for particular years is also lost.

Since all these forms include practically identical information, it is recommended that only one form be used. It is also suggested that the last digits of the fiscal year applicable precede the number of the form.

It is further recommended that the pink copy which is now sent to the registrar be kept in numerical sequence until audited and not destroyed as they have been in the past.

It is also suggested that those who receive payment give a proper receipt from an automatic time stamp, which will also show the identity of the particular receiving teller. At present, no automatic time stamp is being used and the identity of the individual actually receiving the money is not indicated.

**Student Charges:** An analysis of the charges made to students indicated that charges are not entered upon the books until payment is recorded. Prior audit reports have stated that this practice is incorrect and have recommended that a control record be established for students' accounts receivable. This recommendation is, therefore, repeated.

**Students' Meal Tickets - Potential Income:** The records of the Boarding Hall showed them to be deficient in information necessary to readily establish the potential income that should have been received from the sale of students' meal tickets.

During the school year, meal tickets were issued at the following prices:



1st Semester:	
Freshmen	\$165 00
Other Students	160 00
2nd Semester:	
All Students	150 00

At certain times during the year and for various reasons students leave the campus and are excused by the University authorities from boarding at the University Commons and refunds are made to them. However, in several of these instances the original refund slips did refer to the ticket number against which the credit should have been applied.

The inadequacy of the present system for the control of students' meal tickets has been recognized by the College Business Agent and the following routines have recently been established:

1. A student board register stating the ticket number assigned, the student's name, payments, adjustments, etc. is being maintained.
2. A student check-off system has been instituted at the cafeteria counter to prevent the multiple use of one ticket.

In addition to the foregoing, it is also suggested that the following steps be taken to more adequately control these receipts:

1. As an authority for issuing tickets, a copy of the paid tuition bill should be given to the student to be presented for a meal ticket.
2. The Boarding Hall should be the agency for issuing tickets for both the first and second semesters.
3. A separate series of numbers for the summer school should be printed, as opposed to the practice of using any old unused tickets available at the moment.

**Accounts Receivable:** A review of the outstanding accounts receivable on the date of audit indicated that certain accounts had been outstanding for more than one year. In this connection it was noted that no accounts have been forwarded to the Attorney General for collection or disposition since February 6, 1952.

It is recommended that a review be made of these accounts and that steps be taken to forward any accounts to the Attorney General in all instances when they have been outstanding for more than one year.

**Farm Data:** The farm records indicated that there were 30 horses on hand at the date of audit. In this connection the head farmer stated that of them, 15 could be considered surplus and would be offered for sale in November 1953.

**Monthly Production Reports - Mount Toby:** An examination of the Mount Toby stock records disclosed certain shortcomings in the accounting system and bookkeeping errors as follows:

1. Balances were not correctly stated under their proper inventory classifications. In one instance a balance recorded in one month was not carried forward to the next month.
2. A sale of two cords of hardwood was not shown in the stock record, although there did appear a record of the receipt of cash.
3. The stock records do not clearly indicate the quantities of wood lost as the result of waste, bad conditions, or usage for experimental purposes.

It is suggested that greater care should be exercised in recording the production and sale of wood. More complete information should also be given in the stock records so that all wood that has been cut can be readily accounted for.

**Disbursements from Unrestricted Endowment Fund Income:** Previous audit reports have listed evidences of certain types of expenditures made from unrestricted endowment income with the suggestion that they were considered improper charges against the funds. The examination of these vouchers paid during the current audit period again indicated that endowment fund income was still being expended for comparable items as those indicated in these previous audit reports.

**Trust and Agency Funds - Certificates of Deposit:** On the date of audit these funds totaled \$183,464.03. Of this amount, \$60,000.00 was invested in Certificates of Deposit yielding interest at the rate of only 1/4%. It is suggested that this money might be in-

vested more advantageously, possibly in Savings Banks which have recently paid interest as high as 3%. A review was made of the balances in these funds as of close of the ten years ending June 30, 1953, and it was noted that Certificates of Deposit had been continually purchased during this period and have increased from \$20,000.00 on June 30, 1944 to \$60,000.00 on June 30, 1953. It was also noted that this latter amount has been in this category for the past three years indicating that this amount obviously was not necessary for immediate needs.

It is acknowledged that the cash requirements of certain of the larger funds vary because of seasonal demands, etc., and that the funds must be readily available for expenditure; yet, there is no question that a great part of these funds may be advantageously invested.

In connection with this matter attention is directed to the fact that on October 7, 1953, during the progress of this examination, \$30,000.00 of funds belonging to the Military Deposit Account were placed on deposit in a savings bank.

**Athletic Activity Fund:** The financial records of this Fund that are maintained in the office of the Director of Physical Education constitute the following:

1. Advance Slips:
  - a. Expenses for Games
  - b. Petty Cash (Monthly Settlement with Treasurer)
2. Athletic Game Expense Reports:
  - a. Settlement Sheet for
    1. Travel Advances
    2. Incidental Expense
    3. Income from Ticket Sales
    4. Excess of Income over Expenses
3. Sales book for Property Lost by Students
4. Work Sheets for Summarizing above Data
5. Contracts Guaranteeing Share of Gate Receipts

The income accruing to this Fund consists of the following:

1. Sale of Tickets to Faculty at Reduced Prices
2. Sale of Regular Tickets
3. Sale of High School Tickets
4. Rent due from Concessionaires
5. Contracts for Guaranteeing Share of Gate Receipts on Off-Campus Games
6. Student Athletic Tax

It was noted, however, that the sales of tickets at the athletic fields are handled by members of the Treasurer's office which also controls the issue of these tickets. It is suggested in the interest of internal financial control that employees of the treasurer's office who have access to tickets or the proceeds of the sales of such tickets or records of such sales and receipts should not sell such tickets at the athletic field ticket windows.

It is also suggested that the records of the athletic director should be kept on a permanent basis and should include a subsidiary cash receipts and disbursements book which should be reconciled with the accounts of the University Treasurer's office regularly. Inventories of tickets should be taken periodically by persons other than employees of the Treasurer's office who should be so authorized by the Director of Physical Education. It is also suggested that advance slips and "Athletic Game Expense Reports" be prenumbered by the printer.

**Self-Liquidating Dormitories and Buildings:** Chapter 388 of the Acts of 1939, as amended, authorized the incorporation of the University of Massachusetts Building Association, a non-profit organization for the purpose of constructing, equipping and maintaining buildings for dormitories, commons and other uses connected with the State University. The corporation was also originally authorized to borrow money and issue bonds therefor not to exceed \$450,000.00. This law was amended by the Acts of 1945, 1946, 1948, 1950, 1952 and 1953 which progressively increased the \$450,000.00 authorization to \$5,500,000.00.



To date of this audit the following buildings which have been constructed and equipped by this association have been leased to the Commonwealth of Massachusetts:

<u>Units</u>	<u>Term of Lease</u>	<u>Annual Rental</u>	<u>Accommodates</u>
Lewis and Butterfield Halls	20 yrs., 1940-60	\$30,000 00	303 Students
Chadbourn and Greenough Halls	20 yrs., 1946-66	31,250 00	314 Students
Mills Halls	20 yrs., 1947-67	24,500 00	157 Students
Brooks, Hamlin and Knowlton Halls	24 yrs., 1948-72	58,000 00 first 14 years 55,000 00 next 10 years	538 Students
University Apartments	25 yrs., 1950-75	29,000 00 first 15 years 27,500 00 next 10 years	50 Apartments 363 Students
Baker Hall	25 yrs., 1950-75	43,000 00	
Crabtree )	25 yrs., 11 mos.		
Leach )	1952-77	42,500 00 25 years	308 Students 18 Cars
Faculty Carage)			

The cost of the foregoing construction accounts for \$4,500,000.00 of the total bonds authorized. Of the remaining \$1,000,000.00 authorized by Chapter 356, Acts of 1953, bonds totaling \$550,000.00 have already been issued and will be used to construct a dormitory to accommodate 210 students. It is contemplated that another dormitory to cost \$450,000.00 will also be constructed in the near future. When bonds for this latter item are issued, the entire authorized bond issue of \$5,500,000.00 will be exhausted.

The buildings are on State-owned land which is leased to the association for \$1.00 per year per unit. The issuance of these bonds and the fiscal and legal matters pertaining to them have been managed by the Old Colony Trust Company of Boston, the State Street Trust Company of Boston, and the Worcester County Trust Company who function as trustees. Each, however, handles the separate issues of bonds together with all other related matters.

The leases with the University have been so written that the rents received will permit the complete liquidation of the outstanding bonds together with any other expenses which might accrue. The University furnishing heat, electricity and maintains the fixtures and the equipment in the respective buildings. It also provides janitorial services for the stairs and steps, grounds and laundry rooms. Insurance on Lewis and Butterfield Halls, and Chadbourn and Greenough Halls, by agreement, is paid by the University while the insurance on the other buildings is the responsibility of the association.

The statutes also provide that:

"Any building so leased shall become the property of the Commonwealth upon the payment in full of all obligations incurred."

This method of financing construction of state buildings is unique inasmuch as the costs are provided by the students and there appears to be no burden on the taxpayers of the Commonwealth. It must be noted, however, that the bonds do not appear as part of the State debt even though the Commonwealth is contingently liable because of guaranteeing payment.

The financial records which are maintained by the corporation were not examined. Copies of leases were reviewed.

It was intended that the corporation would lease the buildings to the University at a rental sufficient for the liquidation of outstanding bonds together with incidental expenses that may accrue, and it is the policy of the trustees to have rent cover both bond payments and maintenance cost. As of June 30, 1953, however, it was understood that the Mills and Baker dormitories show operating deficits of \$30,737.91 and \$2,577.18, respectively. The other buildings, however, show an excess of income over expenses totaling \$80,700.89, leaving a net excess of income over expenses of \$47,385.80.

It is noted that a Faculty Garage that is being constructed adjacent to the University Apartments will only accommodate 18 automobiles even though the construction contract calls for a capacity of 20 cars.

**General:** Attention is called to the fact that the volume of business and cash



handled by this University has been increased considerably during the past few years. During this period there has been no material effort to keep abreast of this growth by modifying or modernizing the system of accounting and its controls. It is, therefore, suggested that the Comptroller's Bureau review the entire situation.

## SECRETARY OF THE COMMONWEALTH

### GENERAL DEPARTMENT

REPORT NO. 54-9

Archives Division - General: It was noted that a recommendation in the previous audit report with regard to a control account for accounts receivable has been put into effect. Monthly trial balances of the unpaid accounts are now taken. Fees are now collected in advance of work being done, with the exception of state agencies' orders.

On August 3, 1953, the total unpaid accounts amounted to \$176.45. Of this amount, \$74.55 has been referred to the Attorney General for disposition.

Vital Statistics: The previous audit report stated in this connection, as follows:

"Previous audit reports have questioned the propriety of permitting a private person who is not a state employee to have access to certain vital statistics records for the purpose of furnishing certain statistical data to the National Office of Vital Statistics. This information should be prepared by state employees and all money received from the U. S. Government should be recorded in the name of the Commonwealth and deposited with the State Treasurer.

"At the written request of the Secretary of the Commonwealth, the Attorney General rendered an opinion on these questions on December 8, 1949, which reads in part as follows:

'It follows, therefore, that to permit a private contractor to examine the record of all births in the Commonwealth which are under the supervision of the State Secretary, would involve a violation of G. L. (Ter. Ed.) c. 46 sec. 2A. Hence, the answer to the first question proposed is in the negative as to your entering into the contract in your individual capacity and in the affirmative as to entering into the contract in your official capacity. This would seem to eliminate the necessity of answering the second question.

'As to your third question, it is my opinion that all moneys received from the Federal Government, through the National Office of Vital Statistics, for the work performed in your department under the contract made by you in your official capacity as State Secretary should be deposited as a whole with the Treasurer and Receiver-General of the Commonwealth, and payments made therefrom only in the ordinary and usual course of transacting public business.

'The effect of this opinion, however, is not to deprive the National Office of Vital Statistics of valuable statistical and public health reports. It would appear that ample authority is conferred by G. L. (Ter. Ed.) c. 262, sec. 36 and 37, upon the State Secretary acting in his official capacity to furnish the required information at the rate paid by the Federal Government.

Very truly yours,

/s/ Francis E. Kelly  
Attorney General'

"Despite the clarity of this ruling the work performed for the United States Health Service is still apparently continuing to be done by persons not employed by the Commonwealth."

It was noted that the foregoing situation remains unchanged. As of the date of audit, the balance in this account was represented as follows:

Cash in Bank	\$2,677 28
Due from U. S. Government Office of Vital Statistics	381 71
Total	<u>\$3,058 99</u>

Division of Public Documents - Free Issues: During the audit period books having a potential sales value of \$60,529.20 were issued at no charge by this division to authorized City, State and Federal agencies upon their official request.

Previous audit recommendations that books having a sales value which are issued gratis to authorized agencies be recorded on serially numbered forms and filed in chronological order have not been fully complied with. Serially numbered forms are not being used.

Division of Public Documents - Physical Inventories of Books on Hand: The previous audit report states:

"It was noted that no complete inventory was taken by the personnel of this division during the current audit period. The Accounting Manual issued by the Comptroller's Bureau required that state agencies shall take an inventory of their active stock ledger items at least four times a year and their inactive items at least three times a year. It would appear to be consistent with good accounting practice for this division, which has books with a value of approximately \$200,000.00 to take test physical inventories at regular intervals during the year."

It was again noted that no complete inventory was taken by the personnel of this division during the current audit period.

Division of Public Documents - Obsolete Books: The present inventory in the Division of Public Documents include books that are over 30 years old and were recorded in the stock ledger book on the date of the audit as having an issue value of approximately \$41,000.00. These records further indicate that from 1935 to 1953, sales of these books totaled only \$715.20 or an average of \$39.00 per year.

The previous audit report states:

"In view of the decreasing demand for these old books and the urgent need of finding storeroom space for new books, it is suggested that necessary steps be taken to dispose of these books in the manner provided by statute."

A review of the situation reveals that although these books are over 30 years old, they have a definite historical value and should not be destroyed.

However, it is suggested that these books be segregated in the stock ledger books, the stock ledger control account and placed in an inactive account.

Division of Public Documents - Bookkeeping Records: In connection with this audit it was noted that the Raymond Trial Balance Book, in which units and values of issued and balances appearing in the stock book ledger accounts are recorded at the close of each month, is not being used. It is recommended that this record be restored to use as it is an important part of the accounting system.

Division of Public Documents - Bonding of Employees: It was noted that the only person bonded was the principal clerk who maintains the records, whereas all persons of the Public Document room handle cash over the counter in the sale of books. It is recommended that all persons handling cash be bonded.

Corporations Cash Book: It was noted that the cash receipts for February 16, 1953, as entered in the subsidiary cash book of this division, totaled \$1,395.00 on account of filing fees for "Certificates of Condition". However, the departmental general cash book for that date indicates an entry of \$1,380.00 and the deposit slip on file in the Treasurer's office also totals \$1,380.00 and is comprised only of checks. The explanation given for the difference of \$15.00 is that one of the checks must have been lost. It is



suggested that a daily cross check of the general cash book totals with the subsidiary cash book totals would prevent a recurrence of this incident.

Some difficulty was also experienced in attempting to reconcile receipts forms used with the respective income accounts in the subsidiary cash book, because the cash had been entered in the wrong column in the cash book. This can be avoided by use of the so-called "beginning and ending number" method.

#### GARDNER STATE HOSPITAL

REPORT NO. 54-10

**Unclaimed Wages:** It was noted that four pay roll checks have been outstanding for longer than nine months. It is recommended that checks issued on account of salaries or wages, which have not been cashed by the payee within three months, be processed as unclaimed wages in the manner prescribed in the Accounting Manual issued by the Comptroller's Bureau.

**Farm Accounts:** The annual farm report for the year 1952 was examined and an excessive death rate on Shoats, Pigs and Hens was noted. Also noted was spoilage of over 40% on winter squash.

**Materials and Supplies:** The materials and supplies account was analyzed for the audit period and adjustments were noted totaling \$1,369.07 as compared with issues of \$352,177.14. This amount included \$562.74 of overages and \$806.33 of shortages.

**Canteen:** The previous audit report included the following two comments:

"Canteen Theft: On the night of Thursday, July 17, 1952, the canteen was broken into and merchandise ostensibly valued at \$113.35 was stolen. It was understood that the local police were notified as was also the Department of Mental Health. To date of audit the responsibility for this theft has not been established."

"Canteen - Merchandise Sold at Prices Other Than Computed Retail: It is recommended that when merchandise is sold at prices either above or below those originally posted to the selling price column of the cash book that an adjustment be made so that this column will reflect the total actual selling prices."

In connection with the first comment it was noted that the theft was investigated by local police and institution personnel with the result that responsibility for it still has not been established. It has been assumed that it was the act of a patient or patients.

With respect to the second comment it was noted that the cash book is now being adjusted for increases and decreases in selling prices of merchandise.

#### LOWELL TECHNOLOGICAL INSTITUTE

REPORT NO. 54-11

**Statutory Changes:** Attention is directed to the fact that this school formerly known as the Lowell Textile Institute had its name changed to the Lowell Technological Institute of Massachusetts by authority of Section 1 of Chapter 407 of the Acts of 1953.

Section 2 of said Chapter 407 deleted that part of Chapter 74 of the General Laws which pertained to Lowell Textile Institute, Section 3 of that statute amended Chapter 75 of the Tercentenary Edition of the General Laws by the establishment of Chapter 75A which stipulates the powers and the administration of the Institute.

Section 1 of said Chapter 75A reads as follows:

"The Lowell Technological Institute of Massachusetts, hereinafter referred to as the institute, shall be maintained by the Commonwealth for the purpose of giving instruction in the theory and practical arts of textiles, paper, leather, plastics, electronics and other appropriate related curricula which shall be established from time to time to include such scientific, technological, and other studies as may be deemed desirable by the institute's board of trustees."

This statute also indicates that the Institute is no longer subject to the administrative control of the Department of Education.



Accounts Receivable - Research Foundation: On the date of audit, there was due from Lowell Technological Institute Research Foundation \$16,281.74, which represented amounts owed for the use of certain of the Institute's facilities over a period of more than two years.

It was noted, however, that no record of this has been entered on the Institute's records nor has any payment been received on this account for more than two years.

It is recommended that this amount be properly recorded and that subsequent charges be currently made monthly. It is further suggested that steps be taken to collect this item.

Advance Fund: During the course of this audit, it was noted that a loan of \$1,000.00 had been made to the Research Foundation from the Institute's advance funds. Even though this amount was repaid within a short time, this practice should not be encouraged as it is not one of the purposes for which these funds are advanced by the State Treasurer.

Cafeteria Contract: In April 1953, the contract in effect with the cafeteria concessionaire was terminated because of his failure to make payments as agreed upon. The balance due on that date totaled \$5,714.90, and of it \$4,148.91 was for commissions due while the balance represented inventory shortages of \$1,545.49 and telephone charges of \$20.50. This account was turned over to the Attorney General in July 1953 for collection. It is suggested that this balance be transferred to the Suspense Accounts Receivable account in accordance with the directive in the Comptroller's Accounting Manual.

It was further noted that a new contract with a different concessionaire is presently in effect. Payments from him have been received currently to the date of audit.

Bookkeeping - General: During the course of this examination certain bookkeeping practices were noted which made the tracing of bookkeeping entries difficult. Because of these factors a certain amount of internal control is lost. These inadequacies include the following:

1. Details of cash receipts are not complete and are not being maintained in a permanent arrangement. A subsidiary cash book is recommended to support the entries in the general cash book. This could also be used as a posting medium for the detailed accounts receivable.
2. Detailed charges and credits on individual students' accounts do not show dates nor do they include posting references.
3. The total of the balances of student deposits on the individual students' cards does not agree with the comparable general ledger controlling account. It is recommended that a trial balance of these student deposits be taken regularly and that this balance be reconciled with the general ledger account balance. This is of particular importance because student deposits are now being retained from year to year as refunds are now made only when a student graduates or resigns.
4. Certain refunds have been deducted against the gross receipts. This method of course understates the actual receipts and does not record the disbursements.

Salary Augmentation: It was again noted that certain members of the faculty exceeded the maximum salaries of their respective classifications as were established by the Division of Personnel through extra compensation received from the New England Textile Foundation and Lowell Technological Institute Research Foundation. A plan for such extra compensation for these faculty members was originally approved by the Chairman of the Commission on Administration and Finance on September 29, 1947. This plan follows:

"PLAN FOR EXTRA COMPENSATION TO FACULTY MEMBERS FROM THE

NEW ENGLAND TEXTILE FOUNDATION

IN ACCORDANCE WITH CHAIRMAN THOMAS H. BUCKLEY'S LETTER

SEPTEMBER 29, 1947

- "1. Amounts may be awarded by the New England Textile Foundation directly to those faculty members recommended by the administration heads of the Lowell Textile Institute, New Bedford Textile Institute, and the Bradford Durfee Technical Institute, with the approval of their respective Boards of Trustees.
2. Awards may be made to faculty members in amounts such that the total salaries shall not exceed the maximum salaries of their respective classifications as established by the Division of Personnel.
3. Awards may also be made to faculty members for assignments and for services in addition to their full-time teaching schedule.
4. A report of the awards made under the above plan by the New England Textile Foundation will be filed with the Commission on Administration and Finance."

At the time the foregoing plan was promulgated the Research Foundation as it is presently functioning within the Institute, did not exist, therefore no arrangements were included within this salary augmentation program for any payments received by faculty members therefrom. Nevertheless, it is presumed that it was the intent of the Commission on Administration and Finance to control all extra compensation of these related natures.

It is therefore suggested, in order that this arrangement may be completely clarified, that the present Chairman of the Commission on Administration and Finance be requested to furnish a ruling with particular regard to salary augmentation from the Research Foundation.

It is further suggested that possibly, at the same time, he should be asked to interpret more clearly the apparent conflict in the language within Paragraphs 2 and 3 of the plan as originally set forth.

#### LOWELL TECHNOLOGICAL INSTITUTE RESEARCH FOUNDATION REPORT NO. 54-12

**Accounting Records:** Previous audit reports have commented that certain parts of the accounting work of this Foundation was still being performed in the Bursar's office of the Institute. It is noted that this situation no longer prevails as its own personnel now handles all of the necessary bookkeeping and accounting records.

The Bursar of the Institute still maintains a memorandum account on the books of the Institute for the Foundation Fund account.

**Amount Due to Lowell Technological Institute:** The previous audit report indicated that it was agreed, at a meeting of the Executive Committee of the Board of Directors held on July 13, 1951, to reimburse the Commonwealth for the use of facilities of the Institute on the following basis:

1. It is agreed that the Foundation would recommend to the State that 15% of direct labor costs be the overhead payment to the State for the use of the Institute's facilities regardless of the nature of the facilities.
2. Certain contracts in existence prior to the establishment of the 15% rate provided for only 10% overhead charges to customers. In these cases, the amount of reimbursement to the State will be at the rate of 10%.

To August 31, 1953, the amount due to the Commonwealth for the use of these facilities on the foregoing basis was \$16,281.74. As no payment has been made on this account for more than two years, it is suggested that immediate steps be taken to arrange for liquidation of this item.

**Time Devoted by Faculty Members of the Institute to Research Foundation Projects:** An analysis of the number of hours devoted by faculty members of the Institute to projects of this Foundation was made, covering the period from September 3, 1952 to August 31, 1953.



It was noted that they are compensated for their services through the medium of standard invoices, and that accounts so received by them are in addition to their salaries as faculty members. In this connection it was noted that 60 hours per month was established as the maximum which each faculty member could spend on work for the Research Foundation during the months of September through May inclusive. This rule became effective as of April 1, 1952.

It was noted, however, that during the period from September 1952 to May 1953 there were 11 cases which faculty members exceeded this 60 hour maximum. In all of these instances the number of hours were approved by the Dean of the Faculty of the Institute.

**Bonding of Employees:** It was noted that the Executive Director and the bookkeeper who handles the cash are now bonded in conformance with a suggestion in the prior audit report.

**Expenditures from Income Cash:** The previous audit report noted that an amount of income cash had not been sent to the State Treasurer, but had been used to make petty cash disbursements. It was further suggested that the amount of \$44.31 withheld for this purpose be transmitted to the State Treasurer. This amount was accordingly turned over to the State Treasurer in May 1953.

**Annual Audit of Funds of Foundation:** Section 23 of Chapter 407 of the Acts of 1953 states in part as follows:

"The funds of said Foundation shall be subject to an annual audit by the state auditor."

In this connection it was noted that an outside accounting firm originally engaged to establish and organize an accounting system for the Foundation was also engaged for the purpose of making an annual audit. Inasmuch as two such annual audits are a duplication of effort and also involve unnecessary expenditure of funds it was suggested that the audit now performed by the outside accounting organization be eliminated. The Executive Committee, however, did not immediately see fit to so act.

In this connection the foundation was advised in a letter dated December 1, 1953 from the Department of the State Auditor, of an opinion of the Attorney General in a comparable matter. This letter and a copy of the referred to opinion follow:

COPY

December 1, 1953

Mr. Basil G. Skalkęas  
Executive Director  
Lowell Technological Institute  
Research Foundation  
Lowell, Massachusetts

Dear Sir:

Your letter of November 24, 1953 addressed to ....., an accountant in this office, has been turned over to me for consideration.

I note in the letter that your Executive Committee has confirmed the employment of a private accounting firm to furnish an annual audit report to the Foundation.

It is the opinion of this department that the Foundation does not have the authority to employ private accountants to audit their accounts, and this opinion is based on an analogous opinion of the Attorney General dated December 2, 1947, a copy of which I am enclosing herewith for your attention.

By that opinion of the then Attorney General, this office was denied the right to audit the accounts of the Mystic River Bridge Authority because the legislation which created the Bridge Authority provided specifically for an audit by private accountants. The Attorney General obviously based his opinion on the premise that it was not the intent of the Legislature to have the Authority incur the expense of two audits.



With particular reference to the Lowell Technological Institute Research Foundation, Chapter 772 of the Acts of 1950 -- the Statute which created this Foundation -- specifically provides for an audit of the Foundation by the State Auditor, and it is therefore our opinion that it was not the intent of the Legislature that the Foundation should incur the expense of two audits.

We have no objection whatsoever to the other purposes for which you have hired this private organization, but we deem it an obligation on our part to thus object to duplication of audits.

Before proceeding further with your arrangements with this private organization, we request that you bring this letter and its attachment to the attention of the Executive Committee of the Lowell Technological Institute Research Foundation, and that you advise us as soon as possible of its opinion.

I might point out to you at this time that unless the Committee reverses itself we will feel obligated to request an opinion from the present Attorney General on this matter.

Very truly yours,

H. M. Eveleth  
First Deputy Auditor

HME:KHS

Attach.

COPY

Auditor - Authority - Accounts of Mystic River Bridge Authority

Dec. 2, 1947.

Hon. Thomas J. Buckley, Auditor of the Commonwealth.

Dear Sir:

You have asked my opinion as to the authority of the Department of the State Auditor to audit the accounts of the Mystic River Bridge Authority, which was created under the provision of St. 1946, c. 562.

I am of the opinion that you do not possess such authority.

Although G. L. (Ter. Ed.) c. 11, sec. 12, in general terms gives to the Auditor authority to audit "the accounts of all departments, offices, commissions, institutions and activities of the commonwealth," the Legislature in said chapter 562 relative to said Mystic River Bridge Authority has by necessary implication excepted such Authority, even if it be considered an activity of the Commonwealth, from the scope of the authority given the Auditor by the general statute relating to his powers and duties above referred to.

The Legislature in section 14 of said chapter 562 has specifically provided that:

".....The authority shall cause an audit of its books and accounts to be made at least once in each year by certified public accountants and the cost thereof may be treated as a part of the cost of construction or of operation of the bridge. Such audits shall be deemed to be public records within the meaning of chapter sixty-six of the General Laws..."

In section 19 of said chapter 562, the Legislature has further provided:

"All other general or special laws, or parts thereof, inconsistent herewith are hereby declared to be inapplicable to the provisions of this act."

It is not reasonable to suppose that the Legislature would require the Authority to incur the expense of the audit specifically designated in said section 14 if an audit by the

State Auditor were also to be made. Reading the quoted provisions of said sections 14 and 19 together with the whole statute, their context indicates a legislative intent to provide for the audit mentioned in said section 14 in place of an audit by the State Auditor.

Very truly yours,

Clarence A. Barnes,  
Attorney General.

Under date of February 5, 1954, the following letter indicating that an opinion from the Attorney General would be requested was received:

COPY

February 5, 1954

Mr. H. M. Eveleth, Deputy Auditor  
Auditor's Office  
State House  
Boston, Massachusetts

Dear Mr. Eveleth:

This is to inform you that the Executive Committee of the Lowell Technological Institute Research Foundation, at the meeting on January 19, 1954, reviewed the matter of the Foundation's employment of an independent accounting firm, with particular reference to the issue raised in your letter of December 1, 1953.

In view of the nature of the case, the Committee voted to request me to seek an opinion from the Office of the Attorney General relative to this matter. Pending receipt of this opinion, the Committee decided to take no further action.

Very truly yours,

MARTIN J. LYDON  
President

MJL:k

DEPARTMENT OF CIVIL SERVICE AND REGISTRATION

GENERAL DEPARTMENT

REPORT NO. 54-13

License Renewals by Various Boards: The previous audit report states as follows:

"Attention is called to the fact that many of the Boards of Registration are forced annually to handle the mailing and filing of thousands of renewal applications, renewals, etc. Because of this arrangement, these boards are severely handicapped at various peak periods during each year when the processing of these renewals develops. In the interests of more efficient management and better accountability, it is suggested that serious consideration be given to the establishment, as an integral part of the Division of Registration, of a Central Renewal Section. It is further suggested that legislation be sought relative to the issuance of all licenses on a biennial basis. At the same time it is suggested that efforts be made to enact legislation which will provide for an equitable distribution of renewal dates throughout the calendar year.

"If the foregoing suggestions become effective, it will then be easily possible to obtain competent tabulating machine assistance in effectively working out all practical administrative and clerical problems.

"It is also mentioned in connection with this matter that in no wise would the issuance or control of the original licenses by the respective boards be disturbed if the foregoing suggestions are favorably acted upon."

Inasmuch as nothing has been done in this regard, it is again repeated,

## BOARD OF REGISTRATION IN NURSING

REPORT NO. 54-14

**Income:** The previous audit report indicated a discrepancy in the cash of \$383.00. In this connection it was noted that the Bonding Company reimbursed the Board for this amount during the current audit period.

**Handling of Receipts:** In this connection the previous audit report stated, as follows:

"Previous audit reports have noted that several persons handle the cash receipts. Recommendations have been repeatedly made that the Division of Registration together with the Comptroller's Bureau study this situation in an effort to establish responsibility. Had these recommendations not been constantly ignored, the misappropriation of funds by unknown persons would undoubtedly not have occurred.

"Because of the present system, it is impossible to fix responsibility because scarcely any internal control is available. In this connection certain fundamental precautions are necessarily important to insure proper handling of future receipts. These include:

1. One person should open the mail, record all items.
2. A separation of duties is necessary so that the same person will not process renewals, etc., from inception to completion.
3. A periodic rotation of duties would also insure more efficient accounting control.
4. Receipts should be deposited intact each day."

With regard to the foregoing, it was again noted that the opening of the mail and the recording of all items is still not confined to one employee.

It, therefore, is again suggested that one employee be designated to open all mail and record the contents in one control cash book before its distribution for processing.

**Renewal Certificates:** Renewal Certificates for Nurses and Attendants are still issued annually to approximately 42,500 registrants for a \$1.00 fee. It is again suggested in the interests of economy, etc., that consideration be given to issuing these renewals every two years at double the present fee.

**Re-Examination Privileges:** Under the existing statutes applicants for certificates as Registered Nurses and Licensed Attendants who have failed their examination may take another examination within one year without payment of an additional fee. It is suggested that legislation be sought relative to the elimination of this free second examination and that fees be charged for all examinations.

## BOARD OF REGISTRATION IN MEDICINE

REPORT NO. 54-15

**Transfer of Income Receipts - Cash Book:** The previous audit report commented to the effect that deposits of receipts were not being made daily as required. It was also indicated in that report that the cash book was not properly handled in that no distinction was being made as to months, pages were not always totaled and ruled and totals were inserted in pencil rather than ink.

It was noted in connection with the current audit that the foregoing shortcomings have been remedied.

**Certificates:** The previous audit report noted that 192 applicants were eligible for certificates which were on hand at that time but had not yet been sent to be engrossed. The report suggested that arrangements be made to send them promptly to those entitled.

It was noted in connection with the current audit that those certificates of successful applicants are now being promptly forwarded.

**Suspense Account:** Several previous audit reports have stated in this regard as follows:



"As now installed, the suspense accounts for examinations and certified statements are merely reference accounts without control or proof. Only those entries are put in suspense which cannot be given an application number of acceptance. Items in suspense, such as those waiting examinations, are not considered suspense items. It is recommended that the Division of Registration and the Comptroller's Bureau study the feasibility of making the suspense account an actual controlling account."

Inasmuch as nothing has been done in this regard, attention is again called to it.

Minutes of Board's Meetings: In this connection the previous audit reports stated as follows:

"It was again noted that applicants for certificates to practice medicine who qualify through endorsement and National Board certification are issued certificates by means of a vote of the Board of Medicine which is recorded in the minutes. However, there is no record in the minutes relative to the results of the examination and re-examinations held for regular qualifying applicants."

Inasmuch as no change has been made in the present practice, it is again recommended that the results of all examinations and re-examinations be also made a part of the board minutes.

Excess of Disbursements Over Receipts: Attention is directed to the fact that the appropriation expenditures of this Board exceeded its revenue during the fiscal year ended June 30, 1953 in the amount of \$600.88.

Registration of Physical Therapists by Waiver: At the date of the previous audit the disposition of receipts totaling \$2,440.00 representing 488 applications for registration as Physical Therapists by waiver was still pending. It was noted at that time that these applications were being held until Chapter 656 of the Acts of 1951, under which the applicants were to be registered, could be clarified by the Courts.

In this connection, as the result of an action brought by a society of Physical Therapists this board was ordered to register certain members of that society.

These applicants and others eligible under the law were subsequently registered so that of the 488 applicants pending at the time of the previous audit 389 have already been registered and 62 have received refunds. There still remain 37 pending applicants as of the date of this examination.

The deadline for applying for registration by waiver was set at March 1, 1952 by the aforementioned statute.

#### BOARD OF REGISTRATION OF HAIRDRESSERS

REPORT NO. 54-16

Checks Signed in Blank: It was noted that occasionally bank checks were being signed in anticipation of being used. It is advised that this practice be discontinued immediately. The possible dangers are obvious.

Expenditures: Chapter 561 of the Acts of 1951 provides in part as follows:

"that the salaries and expenses of the members of the board, and the expenses of the board, shall not be in excess of the receipts for registration and from other sources received by the state treasurer from the board."

In this connection it is noted that there was again an excess of expenditures over receipts for the fiscal year ending June 30, 1953.

#### BOARD OF REGISTRATION OF PROFESSIONAL ENGINEERS AND LAND SURVEYORS

REPORT NO. 54-17

Applications and Certificates: At present an application is considered to be pending until the Board takes action when the applicant is either approved, rejected or his case is deferred awaiting a written examination.

Attention is called to the fact that applicants rejected may at any subsequent date revive their original applications with no charge. It is understood that since 1941, when this Board was organized, there have been no written examinations. In this connection it was noted however, that while this audit was in progress 249 applicants were notified to take a written examination which will be given on November 14, 1953.

During the progress of this audit considerable difficulty was experienced in reconciling the applications with certificates issued. In this connection it was noted that 32 applications had been revived from the rejected file of Professional Engineers and had been issued certificates. It was also noted that 5 applications in the rejection file of Land Surveyors had been revived and certificates subsequently issued.

On the date of audit there were 874 applications which could be termed "pending" on file, comprised as follows:

Active Pending (awaiting Board action)	124
Rejections	500
Awaiting Written Examinations	<u>250</u>
	<u>874</u>

In connection with the foregoing attention is called to Section 81B of Chapter 643 of the Acts of 1941 which states:

"The Board shall examine applicants for registration as registered professional engineers and as registered land surveyors. It shall make such rules and regulations as are necessary or proper for the proper conduct of its duties. The board may adopt and shall use an official seal."

In view of the foregoing it is suggested that the Board could adopt the rule that rejected applications may be revived only within a reasonable stipulated period.

It is further suggested that a card file be maintained for all pending items, whether they be active, rejected or awaiting examination. A separate card file should be kept for all items removed because of forfeiture of privileges.

**Renewal Certificates:** Renewal certificates for Professional Engineers and Land Surveyors are issued annually to approximately 6,500 registrants for a \$2.00 fee. It is suggested in the interests of economy, etc., that consideration be given to issuing the renewals every two years at double the present fee.

#### BOARD OF REGISTRATION OF ARCHITECTS

REPORT NO. 54-18

**Applications on File:** In this connection the previous audit report states:

"Section 44C of Chapter 696 of the Acts of 1941 states in part as follows:

'The Board may make such rules or by-laws, not inconsistent with law, as it may deem necessary in the performance of its duties.'

"To expedite the processing of applications and to keep the number of pending applications at a minimum, the Board, at a meeting held on April 17, 1950 voted:

'An applicant would not be entitled to refund of application fee after he had submitted to either interview or written examination.'

"At a meeting of the Board on October 2, 1950, the following vote was taken:

'All applications on file over two years are voided and no refunds are to be made on same.'"

In connection with the foregoing it was noted that on the date of audit there were 67 applications in this pending file. It was further noted that several of them had been in



this category longer than two years. It was also noted that the application of one individual which was rejected several years ago had been revived and placed in this pending file during the current period and the applications of three others which had previously been proven ineligible and placed in the ineligible file were revived and issued certificates during the current audit period.

Previous audit reports have suggested that when an application is finally disapproved that the fee be returned immediately to the applicant without awaiting a formal request. Inasmuch as nothing has been done in this regard, the recommendation is again made and it is hoped that it will prove a means of disposing of many of the pending items.

#### BOARD OF REGISTRATION OF DENTAL EXAMINERS

REPORT NO. 54-20

Annual Registration: Chapter 112, Section 44 of the General Laws states that:

"Every registered dentist, when he begins practice, shall notify the Board of his address and shall pay a fee of two dollars before April 1st of each year."

The previous audit report noted that approximately 2 1/2% of the previous year's registrations had not been renewed, and recommended that the Board, by correspondence or otherwise, follow up on some methodical basis all those instances of registrations in the previous license year that did not register in the current year.

It was noted in connection with this audit that approximately 5% of the previous year's registrations had not been renewed.

Bonds: It was again noted that the secretary of the board is not bonded. The senior clerk, who actually handles the office cash is, however, bonded now by the blanket bond issued to the Division of Registration.

#### BOARD OF REGISTRATION IN EMBALMING AND FUNERAL DIRECTING

REPORT NO. 54-21

Cash Receipts: It was noted that cash receipts are not being deposited daily with the State Treasurer as is required. Steps should be taken to remedy this situation at once.

Cash Book: It was noted that the columns in the cash book are not being ruled off each month. Page totals are inserted in pencil rather than ink. It is suggested that these matters be corrected forthwith.

Apprentice Registrations: Previous audit reports have indicated that there were 7 applications with fees totaling \$11.00 which had been received prior to January 1, 1950. It is again suggested that they be formally disposed of as it appears doubtful that the individuals concerned will ever appear for their respective examinations.

Embalmers Re-examinations: Previous audit reports also noted that there were on hand three applications together with fees aggregating \$15.00 which had been received prior to January 1, 1948.

In this connection it was noted that the Board had refunded two of these items during the period under audit.

Unlicensed Funeral Director: This classification includes those individuals who have passed the required Funeral Director's examination but were not actually licensed because they do not have within the Commonwealth a funeral establishment which has been approved by this Board in accordance with statute.

These individuals are registered by the Board as such, and must annually renew this registration and pay the prescribed fee of \$10.00.

In this connection the previous audit report noted that in these instances no formal registration card or license is issued. There is issued a mimeographed acknowledgment. Inasmuch as this particular form is not prenumbered, the checking of the income from this source through this medium was obviously impractical. It is therefore again suggested that prenumbered receipts be issued to acknowledge fees from this source.

Apprentice Registrations and Renewals: The same series of certificates are used for registrations and annual renewals - for registration the higher numbers of the series are used and for renewals the lower numbers of the series.



This method of handling apprentice certificates is unnecessarily complicated. It is suggested that different types of forms be used.

**BOARD OF REGISTRATION OF BARBERS**

REPORT NO. 54-22

Receipts Vouchers: In this connection the previous audit report states:

"It was noted that in many instances deposits of receipts were not being promptly made. In this connection Section 27 of Chapter 30 of the Tercentenary Edition of the General Laws states:

'Except as otherwise expressly provided, all fees or other money received on account of the commonwealth shall be paid daily into the treasury thereof, but if in the opinion of the commission on administration and finance and the state treasurer the interests of the commonwealth require, payments may be made weekly in accordance with such rules and regulations as the state treasurer may prescribe.'"

Inasmuch as nothing has been done in this direction, it is again recommended that deposits be made in accordance with the foregoing.

**BOARD OF REGISTRATION IN PHARMACY**

REPORT NO. 54-23

Registration Renewals - Pharmacists and Assistant Pharmacists: At present a renewal application with a card attached is mailed to the registrant annually for renewal. When the application together with the card and the renewal fee is returned to the Board, the cash is recorded. The application and card are simultaneously numbered with a hand numbering machine and subsequently, the application is filed while the card is returned to the registrant.

It is suggested that only the application for renewal be sent to the registrant, and when the renewal fee is received a prenumbered renewal certificate be issued to the registrant.

It was further noted that renewal cards for Pharmacists and Assistant Pharmacists are issued annually for a \$2.00 fee to approximately 5,600 registrants. It is suggested in the interests of economy, etc., that consideration be given to issuing these renewals biennially at double the present fee.

Travel - State Cars: There are four agents attached to the Board of Registration in Pharmacy, each of whom have the use of a state-owned automobile for which weekly reports are submitted to the Board.

It was noted that these weekly reports include only the miles traveled but do not show the respective locations of the visits made. It was explained, however, that slips giving this information accompany the reports but they are filed, after approval by the Board secretary, by city or town.

It is suggested that copies of such slips be prepared in duplicate and that one copy be attached to the weekly reports and the other copy be filed according to city or town so that this mileage may be more easily identified.

**STATE EXAMINERS OF ELECTRICIANS**

REPORT NO. 54-24

Numbering of Receipts Vouchers: It was noted that the Receipts Vouchers were not being numbered as is prescribed in the Comptroller's Accounting Manual. It is suggested that this situation be corrected.

**BOARD OF STATE EXAMINERS OF PLUMBERS**

REPORT NO. 54-25

Income: Attention is called to the fact that for the 1952 fiscal year the expenses exceeded the income of this board by \$2,101.99 and for the fiscal year 1953 the expenses exceeded the income in the amount of \$2,701.91.

Examinations: It was noted that the pending applications for examination included 32 which were dated prior to the 1951 calendar year. It is suggested that the status of these applications be reviewed.

## BOARD OF REGISTRATION IN CHIROPODY (PODIATRY)

REPORT NO. 54-27

Expenditures: Section 12C of Chapter 13 of the Tercentenary Edition of the General Laws states in part as follows:

"...that the salaries and expenses of the members of the board, and the expenses of the board, shall not be in excess of the receipts for registration and from other sources received by the state treasurer from the board."

In this connection it is noted that there was an excess of expenditures over receipts for the fiscal year ending June 30, 1953 in the amount of \$3,655.08.

## DEPARTMENT OF MENTAL HEALTH

## GENERAL DEPARTMENT

REPORT NO. 54-29

Patients' Funds: It was noted in certain instances that letters of authorization for disbursements were either missing or misfiled. It is suggested that a standard numbered form letter be used to authorize bank withdrawals or disbursements. It is also suggested that they be filed numerically.

It was also noted that the clerk handling these wage and cash reports is not bonded. It is suggested that steps be taken to arrange a bond.

Plans and Specifications Deposits: The previous audit report called attention to the method of handling and disposing of certified checks received as deposits on plans and specifications. In connection with the current audit, several checks were noted which were kept on hand for more than a year. It is therefore again recommended that all such checks which have been held beyond the declared limit be forfeited and sent to the State Treasurer as income.

Special Appropriations: It was noted that the balances of the various special appropriations which had been authorized by Chapter 599 of the Acts of 1948 and which were commented on in the previous audit report were reverted to the Commonwealth during the current audit period.

Special appropriations in this Department for 1953 totaled \$16,197,500.00. In addition, the sum of \$170,885.00 was made available by transfer from the Comptroller's Reserve for Contingencies Fund.

The unexpended balance for special appropriations on June 30, 1953 amounted to \$24,600,732.67.

Contracts - Low Bids Not Acceptable: It was noted that two contracts were awarded to the second lowest bidders of record. The reasons advanced by Department officials for these actions follow:

1. Lowest bidder made an error of \$12,000.00 in estimate. Allowed to withdraw.
2. Lowest bidder failed to file sufficient bid security.

Numbering of Contracts: In this connection the previous audit report stated:

"It is recommended that all contracts be serially numbered when awarded in order to maintain more efficient control."

As this has not yet been done, the recommendation is repeated.

Acceptance of Construction Contracts: In this connection the previous audit report stated:

"It is also recommended that the architect and the superintendents of the respective institutions notify the department by letter of the completion of each project. These letters should be kept on file with the letter of acceptance by the department."

Inasmuch as this suggestion has not yet been adopted, it is consequently repeated.



**Compensation on Certain Sub-bids:** On those occasions where no record appears of sub-bids for an item or items listed in Item 2 of the proposal form, this fact is so noted, and the listing of sub-bids is issued to the bidders and no amount is included by bidders opposite such item. Sub-bidders are subsequently reinvited for this specific work and a selection is made on a competitive basis and accepted by the general contractor.

Until recently, requests by a general contractor for a 5% profit for coordinating and handling such sub-contracts and 1 1/2% for his bond were denied by this Department in a form letter which referred to pages 3, 4, 5 and 6 of the contract where the procedure for handling sub-bids is listed. This form letter reads in part as follows:

"This procedure does not make any provisions for a change in compensation to the general contractor either adding to or deducting from, as the case may be, when sub-contractors are increased or decreased. It is assumed that the general contractor has included the percentage for the coordination and handling of sub-contracts in Item I of his bid."

This letter signed by an official of the Department of Mental Health was used in connection with the refusal of additional compensation on a project at Westborough State Hospital in August 1951.

However, on another project at the Walter E. Fernald School Colony another contractor applied for and received compensation where an apparently comparable situation existed.

In this latter connection a letter to the Department of Mental Health, the Director and Chief Engineer of the then Massachusetts Public Buildings Commission states:

"...In view of the fact that no registered sub-bids were received for this work in the original bidding, the Commission is of the opinion that the contractor is entitled to normal 5% profit plus bond in the actual sub-contract amount..."

This letter apparently created a precedent and subsequently requests for profits were apparently granted. This matter was discussed with the Director of the Massachusetts Public Buildings Commission and the Chief Engineer of the Department of Mental Health who agreed that there was apparently no legal provision for such action. The Director further indicated that no law was violated because the law does not prohibit such action.

It would therefore appear that a ruling by the Attorney General's office should have been obtained to clarify this situation.

**Work Done Not in Contract:** In checking the contracts, a report by an engineer employed by this Department, which concerned a visit made to a State institution by him together with an architect's representative to check on reports that the contractor was not properly fulfilling his contract, included the following allegations:

1. The slate was removed entirely from the existing administration building. This slate was in fine condition and has disappeared from the job site.
2. The sheathing, rafters and ridge have been removed. The sheathing has been cleaned and stacked for shipment and the rafters and ridge have disappeared from the area.
3. A complete new roof is up and covered with building paper.
4. Concrete has been poured for new front steps which will be finished by fancy brickwork design.
5. Almost all walls and ceilings in the existing administration building have been stripped of plaster in preparation for new coats. Some of the lathing has been removed.
6. A new cesspool and dry well have been built (temporary only).



7. The existing main entrance, which is very ornamental, in good condition, and has just been painted is to be torn down and replaced with a new exact duplicate now in the process of fabrication.
8. Stagings are built in preparation for removing clapboards from all old buildings. Incidentally, these clapboards have just been painted under the present contract.
9. The "clerk of the works" when question as to why he condoned the above work stated that a representative of the contractor together with a member of the Massachusetts Public Buildings Commission informed him that the work was to start and outlined the nature of same. The "clerk of the works" was under the impression that the member of the Massachusetts Public Buildings Commission was all the authority necessary to permit the new work.
10. The member of the architect's firm made a record of all the additional renovation.
11. The "clerk of the works" was instructed to stop all work not in the present contract. He said he could not do this until he had contacted his superior and later informed the engineer of the Department that on telephoning his superior's office "no one was there".

It was further noted in this connection that a change order for more than \$73,000.00 was disapproved by the Commission on Administration and Finance but many of its features were later incorporated in Contract #2 with another contractor.

It was also noted that final adjustments and payment had not been made on the original contract as of October 20, 1953.

**Suspense Accounts Receivable:** It was noted that a previous audit report's recommendation has been complied with and that a Suspense Accounts Receivable account has been incorporated in the general ledger.

The balance in this account should ordinarily represent those accounts with the Attorney General for collection. Actually, however, this balance exceeds the amount as shown by the records in the Department of the Attorney General. The reason for the variances is that the Department continues to add current charges. When the Attorney General's office is ready to proceed with a case, the Department is notified and the case record is brought up to date.

The billing section of this Department maintains two listings, one of which shows accounts no longer being billed and the other showing accounts currently being billed even though they have been previously referred to the Attorney General. The total of these listings comprise the Suspense Accounts Receivable account in the general ledger.

As of August 31, 1953, there were 164 accounts with the Attorney General for collection with a book value of \$310,078. 63.

**Accounts Receivable, Board of Patients - Verification Notices:** More than 1,200 verification notices were mailed to those persons of record who were apparently responsible for board of patients remaining unpaid as of September 1, 1953. Of these 75 were returned by the Post Office as "unable to deliver" and 442 were returned indicating agreement with amounts quoted. There were also 56 returned with questions, comments, etc. These were checked and letters of explanation were returned wherever they appeared necessary.

**Overcharges - Accounts Receivable, Board of Patients:** Included with the 56 verification notices returned with questions, comments, etc., were 10 where the responsible person concerned contended that the amount due as shown on the notice was in excess of proper charge. These were traced and it was found that the overcharges were due to failure to note in the records termination of hospitalization due to death or discharge and the Department adjusted the accounts accordingly. The total adjustment for such overcharges totaled \$2,150. 26.

**Comparison of Returns from Hospitals with Ledgers:** To properly bill or credit accounts for patients' board, it is necessary to have complete cooperation from the

institutions involved. The institutions return weekly reports of "Admissions and Dismissals" but they are not complete. It was noted in checking the admissions that the relationship of the patient to the person responsible for board was omitted in several cases. When this information is not furnished, the Department billing office is precluded from sending a bill until an investigation has been completed.

**Change of Status of a Patient:** Many institutions do not show the "change of status" on the register sent to them each month. On escapes, visits, and returned from visit, the institution should include this information beside the patient's name. With this information, the billing office will be able to currently maintain its records.

**Debit and Credit Adjustments:** In connection with this examination the debit and credit adjustments in the Institution Income Accounts Receivable were analyzed for the month of December 1952. The debit adjustments totaled \$14,663.56 and the credit adjustments totaled \$79,010.67, the detail of which follows:

#### Analysis of Debit Adjustments

Return from Visit	\$ 9,209 57
Billing Charge Omitted	2,576 33
To Correct Billing Status	2,418 39
Payment Credit in Error	308 86
Transfer to Active Account	100 00
Absorb Credit Balance	50 41
	<u>\$14,663 56</u>

#### Analysis of Credit Adjustments

Canceled by Division of Support and Settlement	\$51,664 58
Death, Discharge, Visit or Transfer Not Noted	8,878 76
Change of Payor	8,241 67
Settled by Attorney General	7,158 18
Payment Credit in Error	1,910 70
Veteran Administration to Maintain	398 61
Decrease of Rate	376 59
Payment Not Credited	141 44
Incorrectly Computed	140 14
Transfer to Active Account	100 00
	<u>\$79,010 67</u>

It is recommended that these Debit and Credit Adjustments be numbered consecutively and that they be recorded in a book kept for that purpose. These adjustment slips are not filed in any organized manner and can easily become lost or mislaid.

**Institutions - Monthly Financial Reports:** Previous audit reports have stated:

"The Institution Financial Reports which are submitted monthly to the Department of Mental Health are apparently not being reconciled with the control financial records in the Department.

"It is suggested that the Department instruct the Treasurer of each of its institutions to include in their respective monthly reports a complete analysis of the 'Collections - Board of Patients'."

As this suggestion has not been adopted, attention is again called to it.

**Trust Funds:** In July 1951, a check in the amount of \$582.19 was received from the Estate of Ellen P. Drew to be known as the Sarah A. Drew Trust Fund and "to be used for the care of the insane". This item was correctly entered on the Department's books but later was incorrectly posted when the cash was sent to the State Treasurer and has not appeared on the Department's books since October 1951.

It was noted that the State Treasurer, on June 5, 1953, invested part of the cash in securities as follows:



Purchase of U. S. 3 1/4 Bonds due June 15, 1983-78 @ 98 5/8 basis 3.28	\$500 00
33 Days Accrued Interest	1 48
	<u>\$501 48</u>
Discount on Above Bond	6 87
	<u>\$494 61</u>

The records in both the Comptroller's Bureau and in the State Treasurer's office now show in this connection:

Investments	\$500 00
Cash	87 58
	<u>\$587 58</u>

It was noted on June 30, 1953 that the proper accounts were reopened on the Department's books.

Comparison of Cash Collections Account of Patients' Board: A comparison follows showing certain information regarding some years during which this Department operated its Billing Section manually as compared with the current machine system. The years from 1944 to 1949 inclusive, show operations under the original system and the years 1950 to 1953 show operations under the machine system:

Fiscal Year	Collections	Salaries and Expenses	Collection Cost Per Dollar	Increases	
				Collections	Expenses
1944	\$1,051,835 36	\$ 38,047 40	.036	-	-
1945	1,076,294 41	38,063 06	.035	\$ 24,459 05	\$ 15 66
1946	1,152,697 91	41,175 57	.0357	76,403 50	3,112 51
1947	1,200,411 39	48,155 42	.0401	47,713 48	6,979 85
1948	1,247,263 80	50,378 63	.0404	46,852 41	2,223 21
1949	1,294,427 19	55,737 38	.0430	47,163 39	5,358 75
1950	1,379,730 07	85,411 56	.0610	85,302 88	29,674 18
1951	1,551,733 67	92,770 89	.0598	172,003 60	7,359 33
1952	1,829,698 97	103,326 75	.0565	277,965 30	10,555 86
1953	2,054,948 62	102,803 49	.0500	225,249 65	523 26*

\* Decrease

Collections, therefore, were \$225,249.65 more in 1953 than in 1952; however, attention is called to the fact, as indicated in the above table, that there has been a tendency toward increased collections for many years, but in no wise has this increase been comparable with the rate of increase of expenditures of the several institutions.

#### LAKEVILLE STATE SANATORIUM

REPORT NO. 54-30

Interest on Patients' Funds: As of the date of audit the interest account in the Patients' Fund ledger indicated a balance of \$56.91 and represented the interest that had accumulated on the savings bank account.

It is recommended that this item be remitted to the State Treasurer as miscellaneous income and that such additional interest be remitted currently.

Patients' Accounts: It was noted that more than 50% of the accounts in this fund belong to former patients. It is further noted that the majority of these patients have been discharged since July 1, 1952.

It is recommended that an effort be made to return these balances.

Bond: It was noted that the canteen clerk, who handles Canteen Funds, is not bonded. It is recommended that steps be taken in this direction.

#### MONSON STATE HOSPITAL

REPORT NO. 54-31

Bad Checks: Included with the cash on hand was a check dated May 15, 1953 in the amount of \$141.44 which had been returned by the bank because of "Insufficient Funds".

This check had originally been accepted as payment for the board of a patient. It was learned that the superintendent and the treasurer have each written to the maker of the check regarding reimbursement, but to no avail. It is suggested that the Attorney General be advised so that the necessary action may be taken.

**Excise Taxes on Toll Telephone Calls:** Employees of this institution who make personal toll telephone calls through the facilities of this institution and who subsequently make reimbursement therefore do not pay a federal excise tax on such calls. It is recommended that the necessary arrangements be made to bill employees for the excise tax on these personal toll calls.

**Canteen Shortage:** The reconciliation of the canteen inventory through sales indicated a shortage of \$140.05 or 1.47% of sales for the audit period. This would appear to be excessive and steps should be taken to control the inventory more effectively.

**Farm Report:** The 1952 farm report showed a loss for the 1952 year of \$17,843.37 as compared to a loss of \$5,325.77 for the previous farm year. This was principally due to increases in the purchase of grain and cost of personnel services.

The comparison of the production and deaths of Hens, Chicks and Pigs was noted, as follows:

	<u>Total Production</u>	<u>Deaths</u>	<u>Rate</u>
Hens	6,779	698	10.29%
Chicks	5,684	624	10.97%
Pigs	340	66	19.41%

**Trust and Other Funds Expenditures:** Several payments were noted which appear to be questionable charges against the Christmas Fund. Since the donations to this fund were ostensibly to be used to furnish Christmas gifts to patients who have no families, it is suggested that possibly the following expenditures which were made from the Christmas Fund should have been paid from other sources:

Clothes Dryer	\$175 00
Washing Machine Parts	108 69
Sewing Machine	49 95
Painting Stage and Screen	60 00
Building Fence	210 50
Rental of Bulldozer	136 00

**Materials and Supplies:** A test inventory of materials and supplies taken on September 29, 1953 indicated overages totaling \$1,988.92 and shortages totaling \$177.91 as compared with total materials inventoried of \$31,794.45. During this audit period the total adjustments were \$11,388.69 on materials issued aggregating \$311,778.97. These adjustments included one on fuel in the amount of \$9,516.06 which represented an adjustment for a two year period on a total consumption of 17,332 tons. The adjustment was approved by the Department of Mental Health.

**Repairs and Renewals:** The previous audit report stated as follows in this connection:

"The 1947 appropriation for this institution provided within Repairs and Renewals Section \$4,012.00 for the purchase of a Laundry Tumbler. This item was duly received and paid for by the institution in March of 1948 in the amount of \$3,931.76. As of the date of audit this machine had not been installed and was found to be still unused in the laundry section of the institution. It was understood that this equipment is necessary for current laundry purposes and had not been installed, in the opinion of the institution superintendent, because there was an insufficient number of maintenance employees, steam line adjustments were necessary and also because it was proposed to build a new laundry building.

"It is therefore recommended that this machine be either installed or that it be declared surplus so that the State Purchasing Agent may dispose of it to another State institution which may possibly be in immediate need of it."



It was noted that this machine has been installed and is now a working unit within the laundry section.

Trust Fund Cash: It was noted that considerable cash belonging to the Trust Funds, Christmas Fund and Recreation Fund is kept on hand in the office of the institution treasurer. It is again suggested that all currency beyond working requirements be deposited in individual commercial bank accounts.

## MILK CONTROL COMMISSION

REPORT NO. 54-32

General: Previous audit reports have commented fully on difficulties existing between the Milk Control Board and the Dairy Bonding Section of the Department of Agriculture occasioned by the passage of Chapter 791 of the Acts of 1950. This act, which was approved on August 16, 1950 with an "Emergency Preamble", transferred certain functions of the Milk Control Board relating to the Bonding of Milk Dealers to the Department of Agriculture.

Chapter 604 of the Acts of 1953 provided that the Division of Milk Control was to be under the control of a Commission to be known as the Milk Control Commission and left the Bonding of Milk Dealers in the Department of Agriculture.

The Milk Control Board was primarily created to protect the financial interests of certain Massachusetts milk producers, and included in its functions the Board regulates and audits prices paid milk producers. The Board is further responsible for the adequacy of the supply of fresh milk for consumers and dealers in the areas within the Commonwealth, and under its control.

The Milk Control Commission, on the date of this audit employed eight individuals in its auditing sections as follows:

Supervising Inspector of Milk Records	1
Senior Inspectors of Milk Records	3
Inspectors of Milk Records	3
Principal Clerk	1
	<u>8</u>

As nearly as could be determined the main purposes of the auditing section are to determine whether the milk dealers buying from Massachusetts producers are properly accounting and paying for milk purchased in accordance with the official orders of the Milk Control Board and includes the following functions:

1. Conformity to price regulations
2. Satisfactory payments to producers when due
3. Adequacy of bond protection
4. Correctness of assessment payments

These auditors physically inspect and verify all payments of the milk dealers to producers within their jurisdiction. Items in transit are verified in subsequent audits. Determination of the adequacy of a bond is wholly dependent upon payment to producers.

From the foregoing it is, of course, obvious that sections of the Milk Control Board and the Dairy Bonding Section of the Department of Agriculture have certain common purposes. This condition is covered by the common and duplicating laws and regulations which are indicated by Section 42H of Chapter 94 and Section 6 of Chapter 94A of the General Laws (Ter. Ed.). These laws have served to confuse the personnel administering them and also those milk dealers and milk plant operators for the benefit of whom the laws were originally put into effect.

Transfer of Certain Functions: Attention is called to the fact that the control accounts of the secured notes and surety bonds, savings accounts assigned, life insurance policies and real estate mortgages assigned, were transferred from the Milk Control Board to the Department of Agriculture in accordance with a letter of instructions from the Comptroller's Bureau dated November 14, 1950.

Insufficient Bond Coverage: An examination of the records of audits made by the Milk Control Commission Inspectors of the accounts of milk dealers in State-controlled areas indicated that eighteen licensed milk dealers and one dealer, whose license was pending, with insufficient bond coverage were operating milk plants as of the date of audit. The bond deficiencies aggregated \$5,486.71. Notwithstanding the fact that Section 6 of Chapter 94A of the Tercenary Edition of the General Laws provides for

remedial action that can be taken against such dealers, the Milk Control Commission records failed to indicate that any legal action was pending against any of the above milk dealers for inadequate bond coverage.

**Lack of Co-ordination:** The fact that twenty-two dealers buying milk from Massachusetts producers and operating plants in Massachusetts with insufficient bond coverage without incurring legal action from either the Milk Control Commission or the Dairy Bonding Section of the Department of Agriculture indicates that little or no co-ordination exists between these two divisions within the Department of Agriculture. Proper action should have been taken against these dealers by the Milk Control Commission under authority of Section 6, Paragraph 10 of Chapter 94A of the Tercentenary Edition of the General Laws or by the Commissioner of Agriculture under authority of Section 42H, Paragraph 3 of Chapter 94 of the Tercentenary Edition of the General Laws. The continued lack of co-operation between these two divisions serves only to undermine the confidence and respect which the majority of milk dealers have for the laws of the Commonwealth. It is, therefore, suggested that these two agencies promptly take the necessary steps to inform each other, at regular intervals, of any changes in status or of other vital information concerning milk dealers whose operations are of mutual concern to the functions and responsibilities of both the Milk Control Commission and the Dairy Bonding Section of the Department of Agriculture.

**Field Audits:** An examination was made of the records of the audits performed by the field audit staff of this Board during the current audit period and it was noted that less than one third of the milk dealers located in the State-controlled areas are audited regularly, as is shown by the following schedule:

Number of Active Dealers in State-controlled Areas as of September 21, 1953		720
Classification as to Licenses:		
\$5.00	514	
2.00	77	
.50	90	
Pending Licenses	37	
	718	
Dealers not Licensed - Applications not Received	2	720
Classification as to Dealers Audited:		
Number of Dealers Audited	195	
Number of Dealers not Audited	525	720

In connection with these audits, it is understood that those now made are of milk dealers who purchase milk from Massachusetts producers and who sell less than 10% in Federal-controlled areas. The records of these dealers are audited for conformity to producer price regulations, producer payments made within agreement periods and proper assessment payments to the Commission. Except for special field audits, no assessment audits are made of the other milk dealers in the State areas. The reason advanced for not making these audits on all dealers in State-controlled areas was insufficient personnel.

A test check made of the field audits performed in Federal-controlled areas by State Milk Control Commission auditors during the current audit period indicated that of 497 milk dealers located in these areas only two milk dealers were audited for verification of assessment payments.

The reason advanced for not making assessment audits on all dealers in Federal-controlled areas was inadequate operating funds.

The previous audit report stated:

"It is understood that under a pending memorandum of agreement between the Secretary of Agriculture and the Milk Control Board, it will be possible to obtain from Market Administrators in Federal-controlled areas milk sales reports on milk dealers in their areas. These reports will furnish sufficient information to the board so that it may be determined that the dealers in the Federal areas are paying correct assessments. The Federal Government under this agreement would charge the Board a nominal fee for each milk dealer's report."



It was understood that to September 21, 1953 no further action had been taken on this matter.

**Delinquent Assessments:** Monthly assessments payable by milk dealers under Section 9 of Chapter 94A of the Tercentenary Edition of the General Laws constitute the primary source of income for the Milk Control Commission. For the fiscal year ended June 30, 1953, \$158,159.03 or 96% of the total income of the Commission was received from this source. An examination of the assessment ledger indicated that 326 milk dealers were delinquent as of September 21, 1953, in the filing of the required monthly reports of milk sales nor have they paid the assessments due, as follows:

<u>Number of Dealers</u>	<u>Months Delinquent</u>	<u>Total Assessments Due</u>
123	One Month	123
107	Two Months	214
74	Three Months	222
17	Four Months	68
1	Five Months	5
1	Six Months	6
1	Eight Months	8
1	Nine Months	9
1	Twelve Months	12
<u>326</u>	<u>Totals</u>	<u>667</u>

The previous audit report stated:

"It was noted that one milk dealer who is subject to filing and paying monthly assessments had failed to file his monthly assessment reports for the period February 1, 1949 to August 31, 1952. The Board has filed a complaint against this dealer in the Suffolk Superior Court for failure to comply with the statute concerning monthly assessments. On March 13, 1952, this dealer paid the sum of \$815.88 to the Clerk of the Suffolk Superior Court as a bond on the claim of the Board for assessments due the Commonwealth to November 30, 1949. This money will be paid to the Board if the court finds for the Commonwealth."

It was noted that this amount was paid to the Commission on September 24, 1953.

**Unpaid Audit Assessments:** It was noted in the previous audit report that there were outstanding balances totaling \$1,171.37 resulting from field audits of certain milk dealers' records. These balances involved 97 accounts with debit balances of \$1,680.43 and 120 accounts with credit balances of \$509.06 and included items applicable to the 1949 year. During the current audit period \$1,171.37 was reduced to \$202.41. This balance involves 42 accounts with debit balances of \$271.96 and 43 accounts with credit balances of \$69.55, which have not been taken care of.

A review of field audit assessments made during the period under examination disclosed 11 dealers with balances totaling \$225.24, who have not fully paid their assessments. Also, 31 dealers with credit balances totaling \$67.84 have overpaid on their assessments and have not taken the credit due them. It is recommended that delinquent dealers be fully paid up and dealers with credits to have such credits given to them.

The last audit showed five milk dealers who were no longer in business with unpaid assessments. The current audit revealed that three of the five dealers still owe on assessments and one has a pending refund. It is suggested that the Commission take steps to transfer the three unpaid accounts to the Department of the Attorney General for collection.

The current examination also indicated that nine dealers who have gone out of business still have six debit and three credit balances in their accounts. It is suggested that the Commission collect the unpaid balances and return any overpayments.

At the present time no control account is carried in the general ledger to reflect these unpaid debit assessments - it is suggested that the Comptroller's Bureau provide for an accounts receivable control account.

**Arrearages to Producers:** It was noted that thirteen active dealers were in arrears for payments to their producers in the amounts aggregating \$15,606.06.

The records of these dealers in the Dairy Bonding Section indicated that four of them owing \$4,136.29 were not bonded in an amount sufficient to cover their arrearages; eight owing \$9,122.82 appeared to have bonds in excess of their arrearages; and one owing \$2,346.95 appeared to require no bond because his plant was located in another state.

As of the date of the previous audit, balances totaling \$413.24 were due to producers from two dealers who were no longer in business and whose bonds had been liquidated to meet producer obligations. As of September 21, 1953, only \$402.24 of these balances remained unpaid.

**Dealers Not Licensed:** Section 5 of Chapter 94A of the Tercentenary Edition of the General Laws and the rules of this Commission require all license renewal applications and fees for renewals to be filed on or before June 15 of each fiscal year if the licensees wish to continue to engage in the milk business pending the action of the Commission on their respective license applications for the license year beginning July 1. The current examination revealed that out of 1,310 dealers in this Commonwealth, 560 dealers' application fees were received by this Commission after June 15. In this connection about 300 dealers submitted their license fees after July 1, while they were actually operating milk dealers without licenses between July 1 and their respective dates of submitting license fees.

However, as of September 21, 1953 only one milk dealer had failed to pay the renewal fee and this dealer paid during the course of the audit.

**Milk Dealer's License - Date of Issue:** The previous audit report directed comment to the fact that the date of issue was omitted from licenses issued to milk dealers. It was suggested at that time that the date of issue be recorded on the office copy of all licenses issued by the Commission in order to facilitate the audit of income from licenses.

It was noted that this recommendation has been adopted.

**License Forms:** The previous audit report stated that printed license forms had not been issued in numerical sequence by the Commission in conformity with the instructions appearing on page 47 of the Comptroller's Bureau Accounting Manual. During the current audit it was noted that the Commission has now complied with this requirement by issuing license forms in numerical sequence effective for the 1953-1954 fiscal year.

**Milk Dealers Before the Board or the Commission for Statutory Reasons:** The records for the current audit period show that there were 13 cases where for statutory reasons licenses could have been revoked or application for license denied. Of these, four cases involved assessment payments, one failure to pay producer and the remaining eight for various reasons. The cases were disposed of as follows:

Licenses Granted	3
Conditional Licenses Granted	2
Cases Involving Statutory Reasons - Charges Filed	7
Case Pending Further Hearings	1
	<u>13</u>

**Federal Control:** For the period under audit there was one change in the make-up of the control areas of cities and towns within jurisdiction of the State Milk Control Commission or the Federal Milk Market Administrators. On October 1, 1952, the Town of Bedford was transferred from Area 10-C, under State control, to Area 17 which is under Federal control.

**Milk Market Areas:** The Commonwealth has been divided into thirty-seven Marketing Areas, of which four - Nos. 6-A, 8, 17 and 19-A-B are now under the control of Federal Milk Market Administrators. Another, No. 11-ABC is controlled jointly by State and Federal agencies and is administered by a joint State-Federal Milk Market Administrator. A sixth area, No. 18 is regulated under a State Milk Control Board Order #G-18-205, as amended and is administered by a State Milk Market Administrator. This area, has been administered under a State Milk Control Board Order since April 1, 1940, and its administrator is appointed by the Milk Control Commission. This area differs from the other areas controlled by the Milk Control Commission in that it has a market wide pool which accounts for and pays for milk produced in this area. The membership of the pool is composed almost entirely of the members of the New Bedford Milk



Producers Association, a producers co-operative bargaining association. It is a highly organized area and a homogeneous market because of the common interests of both producers and dealers.

Except for the shortages during World War II, practically all milk sold in the area comes from within its borders. From 1934 to 1940 the area was administered under a Federal license. However, when the Federal Agency took into consideration that this was not a matter of interstate commerce, it ceased its control function. It differs from other State regulated milk market areas of the Commonwealth, as it is the only market wide pool area under State control. There are similar market wide pool areas in the states of New York, California and Oregon. The area was set up as a market wide pool because a substantial majority of the milk producers so petitioned the Milk Control Board.

The Milk Market Administrator representing this Board also functions as the Market Agent representing the milk pool producers. This official who does not receive any compensation from the Commonwealth is paid entirely from funds derived from the State administered milk pool. The State Milk Control Commission holds three surety bonds paid from producers' funds for the purpose of protecting the producers' funds in the custody of this official.

The accounts of the milk pool dealers in this area are not audited by State Milk Control Commission Inspectors. All audits of these dealers are made by an inspector in the employ of the Milk Market Administrator of Area No. 18. An audit of the books of the New Bedford Milk Market Administrator (Area 18) is made annually by a State Milk Control Commission Inspector.

**Rent of Office Space:** A lease dated December 1, 1952 effective January 1, 1953 was executed between the Boston Building Corporation and the Milk Control Board, Commonwealth of Massachusetts. This provided for 3,644 square feet of space, the entire seventh floor and rooms 814, 815 and 816 on the eighth floor of the Boston Building, 41 Tremont Street, Boston at an annual rental of \$8,563.40 payable in equal monthly installments of \$713.62. The lease to run for five years from January 1, 1953 with a proviso that under certain conditions the lease may be terminated by either party upon one year's notice in writing given after January 1, 1956.

**Cash Shortage:** An extended audit was made in connection with this examination of certain financial activities for which the former head administrative clerk was responsible, covering the period from February 1, 1952 through the close of business December 4, 1953 as of which date he resigned.

A statement made by him at the time of his resignation reads in part as follows:

"I..... an employee of the Mass. Milk Control Board..... for the past fifteen years wish to state voluntarily that I have obtained money from the State Treasurer's office of the Commonwealth of Mass. by drawing against other employees' accounts both salary and vacation accounts to the amount of \$4,500. Forty Five Hundred Dollars ....."

The amount involved was determined by this audit to be \$4,966.45.

Attention is directed to the fact that after criminal action had been instituted, the former employee, at the direction of the court, made restitution to the State Treasurer and Receiver-General in the amount of \$4,716.45. This amount gives effect to an allowance made to him of \$250.00 for vacation allowance.

#### PORT OF BOSTON AUTHORITY

REPORT NO. 54-33

**General:** An examination of statistics for the past six years indicates the following tonnage handled annually by the Port of Boston:

<u>Calendar Year</u>	<u>Total Tonnage</u>
1947	18,502,902
1948	18,317,356
1949	15,363,529
1950	18,194,438
1951	18,976,880
1952	18,237,945

Deficiency: Attention is directed to Schedule No. VIII in this report which indicates that if all factors of expense were taken into consideration the Port operated under a deficiency of \$530,729.27 during the fiscal year ending June 30, 1953, and that the total deficiency from Port operations in the period from July 1, 1946 to that date has amounted to \$4,681,659.97.

Operations for the fiscal year ended June 30, 1953 show an excess of \$351,511.73 receipts over expenditures and encumbrances. Fixed charges for the same period were \$882,241.00, and the net deficiency was therefore \$530,729.27.

Bond Account - Boston Harbor Facilities Loan Fund: Section 10 of Chapter 619 of the Acts of 1945 provides in part as follows:

"Section 10. Subject to the conditions herein imposed, for the purpose of purchasing sites and pier locations and the construction thereon of pier facilities under authority of chapter ninety-one A of the General Laws, inserted therein by section three of this act, the state treasurer shall, upon request of the Authority and with approval of the governor and council, issue and sell at public or private sale bonds of the commonwealth registered or with interest coupons attached, as he may deem best, to an amount to be specified by the Authority from time to time, but not exceeding, in the aggregate, the sum of fifteen million dollars....."

The status of the bond account authorized under this statute, as amended, follows:

Status of Chapter 619, Section 10

As of June 30, 1953

Original Appropriation		\$15,000,000 00A
Amended by Chapter 771, Acts of 1951	-\$1,200,000 00	13,800,000 00B
Amended by Chapter 505, Acts of 1952	-3,850,000 00	9,950,000 00C

	<u>A</u>	<u>B</u>	<u>C</u>
East Boston	\$ 7,500,000 00	\$ 7,500,000 00	\$3,650,000 00
Hoosac Pier and Grain Elevator	5,000,000 00	5,000,000 00	5,000,000 00
Mystic Wharves	1,300,000 00	1,300,000 00	1,300,000 00
Castle Island	1,200,000 00	-	-
	<u>\$15,000,000 00</u>	<u>\$13,800,000 00</u>	<u>\$9,950,000 00</u>

Expenditures and Encumbrances under Bond Issue: The State Treasurer in compliance with requests from the Authority has issued bonds totaling \$5,000,000.00 to June 30, 1953 for the "Hoosac Pier and Grain Elevator". The following is a summary of expenditures and encumbrances to June 30, 1953 in this account:

Amount Authorized and Bonds Issued	\$5,000,000 00
Expenditures	<u>5,000,000 00</u>
Balance Available	<u>-</u>

	<u>Payments</u>	<u>Encumbrances</u>	<u>Total</u>
Purchase of Hoosac Pier	\$1,042,176 00	-	\$1,042,176 00
Purchase of Grain Elevator	100,000 00	-	100,000 00
Personal Services	131,464 09	-	131,464 09
Expenses	34,528 89	-	34,528 89
Contracts*	3,691,831 02	-	3,691,831 02
	<u>\$5,000,000 00</u>	<u>-</u>	<u>\$5,000,000 00</u>

*Contracts:			
Engineering Services	\$ 100,596 97	-	\$ 100,596 97
Demolition and Removal of Grain Conveyor Gallery and Pier	17,500 00	-	17,500 00
Test Borings	2,957 86	-	2,957 86



Excavating, Dredging and Filling	\$ 368,163 34	-	\$ 368,163 34
Construction and Substructure	1,598,010 47	-	1,598,010 47
Demolition of Buildings	1,200 00	-	1,200 00
Battery Charging Building	70,041 17	-	70,041 17
Construction of Superstructure	717,871 53	-	717,871 53
Repairs to Elevators	682 33	-	682 33
Fire Alarm System	7,627 00	-	7,627 00
Track Well Bridge	10,940 00	-	10,940 00
Roadway	9,455 04	-	9,455 04
Testing Materials	5,860 11	-	5,860 11
Design of Grain Handling Facilities	12,721 46	-	12,721 46
Steel for Grain Conveyor	48,322 02	-	48,322 02
Furnishing and Installing Special Machinery for Grain Elevator	254,429 13	-	254,429 13
Anchorage System	104,125 00	-	104,125 00
Furnishing and Erecting Bronze Tablet	1,134 00	-	1,134 00
Furnishing and Installing New Electric System and Floodlights			
Pier #1	2,285 00	-	2,285 00
Dredging	13,684 32	-	13,684 32
Installation of Built Up Roof for Grain Elevator	5,845 00	-	5,845 00
Painting and Water Proofing	16,000 00	-	16,000 00
Alterations and Improvements to Electric System in Grain Elevator	16,416 75	-	16,416 75
Grain Weighing Scales	11,940 00	-	11,940 00
Repair Windows and Drainage System	18,093 99	-	18,093 99
Repairs to Elevators	1,037 00	-	1,037 00
Asphalt Floor Tile	475 00	-	475 00
Cleaning Grain Elevator	4,923 00	-	4,923 00
Fumigating Grain Elevator	4,975 00	-	4,975 00
Installing Steel Chute Gates	1,146 15	-	1,146 15
Installing Electric Power Outlets	4,809 69	-	4,809 69
Removal of Debris	683 00	-	683 00
Resurfacing Paving	2,185 00	-	2,185 00
Installing Cleaning System	8,006 84	-	8,006 84
Platform at Grain Elevator	1,379 00	-	1,379 00
Engineering Agreement	3,644 74	-	3,644 74
Lowering of Windows in Grain Elevator	545 65	-	545 65
Steel for Superstructure	191,091 09	-	191,091 09
Installation of Water Ejectors	1,228 90	-	1,228 90
Expansion Proof Motors	2,864 77	-	2,864 77
Rehabilitation of Trackage	423 38	-	423 38
Replacement of Hand Winches	42,933 00	-	42,933 00
Repairs to Scales	2,690 71	-	2,690 71
Repairs to Electric Motors	886 61	-	886 61
	<u>\$3,691,831 02</u>	<u>-</u>	<u>\$3,691,831 02</u>

Hoosac Pier: It was noted that the five year lease for these premises originally entered into with the Boston and Maine Railroad in May 1949, which is based on a percentage of the construction costs, was amended on April 11, 1951, to include the adjusted cost of construction in the amount of \$4,543,289.00.

Hoosac Pier Computation of Rent: In this connection the previous audit reports stated:

"Section 10 of Chapter 619 of the Acts of 1945 stipulates that the rent under the lease shall be at a rate sufficient to amortize sixty per cent of the actual cost to the Commonwealth. It is immediately obvious that 'actual cost to the Commonwealth' must include the cost of construction plus all the costs incident to its financing, and this Department insists that the total cost of interest for the entire period while bonds are outstanding is an essential element in any rental computation. In this connection it was noted that the Authority in making this computation included interest costs only to February 28, 1951."

Attention is directed to the fact that had the foregoing requirements been followed the income from the first date of rental on March 1, 1951 to August 31, 1953 would have exceeded that which was received by \$31,922.72, computed as follows:

Rental Period		Rent That Should Have Been Charged	Rent As Charged	Difference
March 1, 1951 to June 30, 1951		\$ 49,689 28	\$ 45,432 88	\$ 4,256 40
July 1, 1951 to June 30, 1952		149,067 70	136,298 64	12,769 06
July 1, 1952 to June 30, 1953		149,067 70	136,298 64	12,769 06
July 1, 1953 to August 31, 1953		24,844 64	22,716 44	2,128 20
		<u>\$372,669 32</u>	<u>\$340,746 60</u>	<u>\$31,922 72</u>

It is again suggested that this matter be referred to the Attorney General for advice.

**Hoosac Pier Grain Elevator:** The original lease with the Boston and Maine Railroad provided for rental of this elevator upon its completion, at an annual rental equal to 3% of the cost of the elevator and its additions, alterations, etc., for a period of twenty years was based on a tentative cost of \$525,000.00. This lease was later amended to reflect increased costs of \$125,292.79, which brought the total to \$650,292.79.

On May 28, 1952 another and final amended lease was approved by the Governor and Council increasing the ceiling cost to \$653,000.00.

It was noted however, that the railroad actually occupied the premises as of April 20, 1951, and for a period of four months operated them on a trial basis until August 20, 1951 when the lease actually became effective.

Attention is again directed to the fact that the rental charges reflect only the interest charges on monies borrowed during the period of construction. In this connection it is contended that these rental charges should include all interest costs during the entire life of the bonds.

**Boston and Albany Piers.- East Boston:** Chapter 545 of the Acts of 1948 states in part as follows:

"Subject to the conditions imposed by section ten of chapter six hundred and nineteen of the acts of nineteen hundred and forty-five, the Port of Boston Authority is hereby authorized, for the purpose of purchasing sites and pier locations and the construction thereon of pier facilities under authority of chapter ninety-one A of the General Laws, to make commitments and expenditures without further authorization by the general court therefor, from the proceeds of the bond issue provided for by said section ten up to but not in excess of the amount of seven million five hundred thousand dollars, such amount to be in addition to the amount heretofore authorized to be expended from said proceeds."

In this connection Chapter 505 of the Acts of 1952 authorized the expenditure of \$5,850,000.00 on the East Boston pier facilities. Of this amount \$3,850,000.00 was to be made available by transfer from the unexpended balance of an appropriation of \$7,500,000.00 provided by Chapter 545 of the Acts of 1948, and by an additional \$2,000,000.00 appropriated.

The following schedule shows the analysis of the disbursements and encumbrances under the accounts to June 30, 1953:

Bonds Authorized:		
Chapter 545, Acts of 1948 as amended	\$3,650,000 00	
Bonds Not Issued	-	
Bonds Issued	\$3,650,000 00	
Less:		
Payments and Encumbrances	3,685,803 52	
Deficiency		\$ (35,803 52)
Bonds Authorized:		
Chapter 505, Acts of 1952	\$5,850,000 00	
Bonds Not Issued	5,850,000 00	
Bonds Issued	-	
Less:		
Payments and Encumbrances	\$5,281,684 82	(5,281,684 82)
Total Deficiency		<u>(\$5,317,488 34)*</u>



* 1952 Fiscal Year	(\$ 35,803 52)
1953 Fiscal Year	(5,281,684 82)
	<u>(\$5,317,488 34)</u>

	Payments	Encumbrances	Total
Purchase of Land	\$3,000,000 00	-	\$3,000,000 00
Personal Services	199,547 63	-	199,547 63
Expenses	18,874 16	\$ 349 03	19,223 19
Contracts	1,097,928 23	4,650,789 29	5,748,717 52
	<u>\$4,316,350 02</u>	<u>\$4,651,138 32</u>	<u>\$8,967,488 34*</u>

* Chapter 545, Acts of 1948 as amended	\$3,685,803 52
Chapter 505, Acts of 1952	5,281,684 82
	<u>\$8,967,488 34</u>

	Payments	Encumbrances	Total
Contracts:			
Test Borings	\$ 1,890 98	-	\$ 1,890 98
Renovating of Heating System	951 29	-	951 29
Demolition of Grain Gallery	13,429 81	-	13,429 81
Utility Line Supports	3,965 00	-	3,965 00
Relocating of Electric and Air Services	5,414 92	-	5,414 92
Replacing Aerial Cable	535 00	-	535 00
Alteration and Improvements to Grain Handling Facilities	357,392 86	-	357,392 86
Removal and Relocating of Certain Communication Lines	-	\$ 75 00	75 00
Relocation of Fire Alarm	199 80	-	199 80
Electrical Work	729 00	-	729 00
Alterations - Telephone System	440 00	-	440 00
Demolition, Dredging, Filling	332,431 16	75,119 84	407,551 00
Construction - Substructure and Superstructure	134,623 01	4,541,453 99	4,676,077 00
Furnishing Gravel and Fill	67,989 54	24,960 46	92,950 00
Demolition and Removal	1,020 00	180 00	1,200 00
Test Borings	-	9,000 00	9,000 00
Engineering Agreement	30,292 09	-	30,292 09
Engineering Services	146,623 77	-	146,623 77
	<u>\$1,097,928 23</u>	<u>\$4,650,789 29</u>	<u>\$5,748,717 52</u>

Lease of East Boston Facilities: An interim lease for these premises which comprise five piers including an open pier was dated July 1, 1949. The rent for these premises is based on 3% of the net cost of the construction of this project. However, this net cost was reduced by the value of the land on or about the premises of Pier #2 when it was demolished, and therefore, the annual rental is computed as follows:

Cost of Land	\$3,000,000 00
Less:	
Value of Pier #2	175,000 00
Net Cost	<u>\$2,825,000 00</u>
Rental Based on 3% of Net Cost	<u>\$84,750 00</u>

The remaining piers are apparently in good condition and will probably require no major repairs, and they are presently in use.

At the expiration of this interim lease which is with the New York Central Railroad - when the Port Authority has completed the new pier - a lease for twenty years (with option for renewal) will become effective. This lease, however originally provided for an annual rental of 3% of the cost of the construction, based on the following tentative figures:

Purchase Price	
Value of Commonwealth Lands	\$3,000,000 00
Estimated Maximum Cost	145,000 00
	4,500,000 00
	<u>\$7,645,000 00</u>

On September 3, 1952 however, an amended agreement was approved by the Governor and Council making provisions for increases in the cost of construction of the pier and grain facilities. Rentals therefore were increased and now it is stipulated that on completion of construction a lease will be written for twenty years at an annual rental fee of 3% of the following adjusted costs:

Purchase Price	\$3,000,000 00
Value of Commonwealth Land	145,000 00
Maximum Cost	5,850,000 00
	<u>\$8,995,000 00</u>

On December 31, 1951 the grain elevator renovation was completed. The railroad began paying rent on January 1, 1952, at a rate based on 3% of the cost plus interest on the bond issue to the completion date.

Bond Account, Boston Harbor Terminal Facilities Loan Fund: This fund was established by Chapter 714, Acts of 1941, and was transferred to the Port of Boston Authority by Chapter 619 of the Acts of 1945. Its purpose is to acquire the Mystic Wharves and build a pier and develop a water-front terminal.

The following is a summary of activities in this fund to June 30, 1953:

Original Authorization		\$4,700,000 00
Transferred from Boston Harbor Facilities Loan Fund		<u>1,300,000 00</u>
		<u>\$6,000,000 00</u>
Total Bonds Authorized	\$6,000,000 00	
Bonds Not Issued	<u>460,000 00</u>	
Bonds Issued		\$5,540,000 00
Expenditures		<u>5,533,492 13</u>
Balance		<u>\$6,507 87</u>

	Expenditures	Encumbrances	Total
Purchase of Land	\$1,345,000 00	-	\$1,345,000 00
Personal Services	147,251 88	-	147,251 88
Expenses	10,038 83	-	10,038 83
Contracts	4,031,201 42	-	4,031,201 42
	<u>\$5,533,492 13</u>	<u>-</u>	<u>\$5,533,492 13</u>

Contracts:

Architectural and Engineering Services	\$ 132,879 31	-	\$ 132,879 31
Submarine Pile Inspection	4,360 00	-	4,360 00
Test Boring	3,805 28	-	3,805 28
Drawing and Testing Piles	5,689 00	-	5,689 00
Moving Field Office	1,199 00	-	1,199 00
Superstructures	3,715,233 35	-	3,715,233 35
Testing Materials	7,260 06	-	7,260 06
Furnishing and Installing Fire Nozzle Hatches in Deck	10,654 68	-	10,654 68
Substructure Repairs	62,328 50	-	62,328 50
Repairs to Heating and Plumbing System	3,897 50	-	3,897 50
Repairs to Exterior Doors	4,953 19	-	4,953 19
Repairs to Downspouts and Gutters	1,446 00	-	1,446 00
Dredging Berths Pier #1	44,896 60	-	44,896 60
Plaque	884 00	-	884 00
Grading and Paving	4,200 00	-	4,200 00



Modification of Sprinkler System	\$ 4,317 00	-	\$ 4,317 00
Furnishing and Erecting Steel			
Wire Fence	5,670 00	-	5,670 00
Emergency Roof Repairs	2,014 75	-	2,014 75
Ship Water Supply Cabinets	600 00	-	600 00
Furnishing and Installing Fire			
Alarm System	8,474 00	-	8,474 00
Laying Asphalt Tile Floors	376 00	-	376 00
Relocation of Switches	37 00	-	37 00
Installation of Wire Grill Partition	398 00	-	398 00
Loading Platforms	3,825 00	-	3,825 00
Weather Stripping	1,361 00	-	1,361 00
Installation of Push Buttons	254 00	-	254 00
Installation of Safety Switches	100 00	-	100 00
Welding Rods	88 20	-	88 20
	<u>\$4,031,201 42</u>	<u>-</u>	<u>\$4,031,201 42</u>

Mystic Pier #1 Lease: This pier is now completed and on August 1, 1952 the Boston and Maine Railroad occupied the premises. The railroad commenced paying rent as of August 9, 1952 on a rental based on a rate of 3% of the construction costs of \$5,704,347.45. The lease has been signed and has been approved by the Governor and Council.

It is noted that Piers numbered 48, 49 and 50 which were to revert to the Authority when Pier #1 was completed will be retained by the railroad for an additional two years at a rental which will be established after discussion between the interested parties.

Federal Funds: The General Services Administration of the Federal Government agreed to advance to this Authority the sum of \$43,987.50 to defray the cost of an original survey, investigation and preparations of preliminary plans on which detailed plans will be based for the development of the Castle Island Terminal in South Boston. This amount was received prior to the previous audit period. To date expenditures of \$41,250.00 have been made, leaving a balance of \$2,737.50. There were expenditures of \$11,000.00 from this fund during this audit period.

Terminal Operators, Incorporated: On November 1, 1946, the Port Authority granted a permit to Terminal Operators, Inc., to operate the Castle Island Terminal for the handling of commercial cargoes.

Until June 30, 1948, under the terms of the lease the Port Authority was to receive 75% of the net income from operations of the terminal as rental.

A contract dated July 1, 1948 with this corporation provided as follows:

"To Pay the ..... \$1,500.00 per month (base payments) and, in addition to make payments ..... after making deductions hereinafter provided for ..... equal to the percentages of net income as hereinafter defined, of the licensee from the use and operation of the permises for each full year in force.....

53% of the amount of such net income not in excess of \$60,000.00

58% of the amount in excess of \$60,000.00 but not in excess of \$70,000.00

65% of the amount in excess of \$70,000.00 but not in excess of \$80,000.00

75% of the amount in excess of \$80,000.00"

Under this agreement the following income was reported to the Authority by the corporation July 1, 1951 to June 30, 1953:

Total Revenue by Terminal Operators, Inc.	\$226,198 05
Less:	
Expenses	116,807 12
Net Income	<u>\$109,390 93</u>

On this basis of total net income of \$109,390.93 received by the corporation, rent computation in accordance with the contract was as follows:

Total Net Income\$109,390 93Rent Due to Port  
of Boston Authority\$65,405 13\*

Information with respect to the foregoing was made available by the Terminal Operators, Incorporated, at their offices.

Attention is directed to the fact that the foregoing amounts include paid billings for the years 1950, 1951 and 1952, which were owed to the Terminal Operators, Incorporated by the New York, New Haven and Hartford Railroad for trackage and terminal facilities, as follows:

<u>Chargeable Year</u>	<u>Rate for Year</u>	<u>Collections</u>	<u>Rent Due Authority</u>
1950	75%	\$ 644 10	\$ 483 08
1951	75%	4,388 70	3,291 53
1952	53%	3,354 90	1,778 10
			<u>\$5,552 71</u>
Fiscal Year 1953			\$59,852 42
Previous Year's Income			<u>5,552 71</u>
			<u>\$65,405 13*</u>

There was no actual signed agreement in effect on the date of this audit. However, it is understood that another contract will be negotiated in the near future.

Castle Island Terminal: Transfer of the Naval Facility at Castle Island to the Port Authority has been authorized by the Congress of the United States and also by the General Court of this Commonwealth.

Construction authorized under Chapter 771 of the Acts of 1951 is not contemplated until a time subsequent to the deed for this property being received.

Leases: It is suggested that those leases which are to be negotiated in the future for renewal or extension be reviewed to determine that rentals are adequate. In this connection it was noted that one lease with a yearly rental of \$45,000.00 has been in effect at that rate for more than twenty-five years.

It was also noted that the normal procedure in negotiating leases does not include competitive bidding. It is suggested, in certain cases, leases be awarded on the basis of bids, after requests to bid have been duly advertised.

Pier #5 - Income: It is suggested that information relative to every ship docking at Pier #5 should be forwarded to the accounting section immediately, and the Comptroller's Bureau should be contacted for advice so that the proper forms may be prepared. It is suggested that this form should include information as to the date and time of docking, the value of the cargo, and possibly the types of charges which may be collected, such as wharfage, dockage, water, electricity, etc.

Pier #5 - Collection of Charges: It is suggested that consideration be given to collecting certain charges directly from ships docking at Pier #5. It is understood that such an arrangement is in effect at the Army Base and apparently operating efficiently.

Sales of Land: During the period of this audit, \$213,325.96 was received from sales of land.

The sale of property to a lessee for \$136,378.50 was after an appraisal made by an outside appraiser, who established that value.

A deposit of \$1,000.00 applying to a sale of land for \$8,000.00 was also received and deposited within the audit period. The balance of \$7,000.00, however, had not been paid as of the date of audit. The signed sales agreement, which was approved by the Governor and Council, is now ready for delivery pending payment of the balance due.

A proposal to purchase 14,410 square feet of land located on B Street, South Boston for \$6,000.00 was accepted by the Board at a meeting which was held August 18, 1953. The quitclaim deed was approved by the Governor and Council on October 8, 1953, and the check for \$6,000.00 was received on October 23, 1953.



It was noted that even though it is not the normal procedure to advertise for or request bids on land for sale, one parcel of land was sold to the highest bidder after bids had been posted.

**Option to Buy:** It was noted that a check for \$1,000.00 representing a deposit on an option to buy land from the Authority was on hand in the accounting office on the date of audit. This option was approved by the Governor and Council October 8, 1953 and the check was subsequently deposited.

**Mystic Pier #48 - Fire Loss:** It was noted that the Boston and Maine Railroad had received \$99,402.62 in full settlement for damages on account of a fire at Pier #48 on June 2 and 3, 1953 according to a letter dated September 14, 1953.

#### NORTH READING STATE SANATORIUM

REPORT NO. 54-34

**New Houses:** In this connection the previous audit report stated:

"Attention is directed to the fact that this institution has completed the construction of a new single house intended for the occupancy of the superintendent, and a new duplex house intended for occupancy by two staff physicians. In this connection it was noted that there was expended by the institution for furniture and furnishings the sum of \$8,115.00 and for household supplies an additional amount of approximately \$1,300.00.

"After this furniture, etc. had been purchased, the Commission on Administration and Finance determined that the superintendent should be charged for its use at the rate of \$35.00 per month, and the two physicians should be charged individually at the rate of \$24.00 per month. At this point, the superintendent and one physician declined to pay for use of the furniture and elected to use their personally owned property in its stead. Because of this apparent impasse, this new furniture, which is not adaptable for use elsewhere in the institution, is presently stored in the basement of one of the hospital buildings, where it will undoubtedly deteriorate in value and appearance unless it is put to practical use within a short time.

"It does seem that this situation could have been much more clearly anticipated so that the Commonwealth would not have had to expend nearly \$10,000.00 unnecessarily."

It was noted that the transfer of this furniture was authorized by the State Purchasing Agent in accordance with the following letter:

#### COPY

#### THE COMMONWEALTH OF MASSACHUSETTS

Commission on  
Administration and Finance  
State House, Boston 33

October 23, 1952

Dr. Alton S. Pope  
Deputy Commissioner  
Department of Public Health  
State House, Boston

Dear Doctor:

Referring to your letter of October 16th addressed to Mr. Buckley, attention of Mr. Baylies, this office approves transfer of furniture and equipment not needed at the Superintendent's House and the Duplex House to other places in the institution where it is needed.

Very truly yours,

G. J. Cronin  
Commissioner and Purchasing Agent

In checking the inventory of this furniture, etc., it was noted that a small part of it is currently being used in the institution dining room, kitchen and in the dormitories.

It was further noted that the superintendent and the assistant superintendent are paying a monthly rental of \$10.00 and \$6.95 respectively for the use of rugs, draperies and other items. Attention is also directed to the fact that the senior physician is charged \$4.50 each month while two assistant physicians pay \$9.00 and \$3.00 respectively for the use of the house furnishings.

The bulk of the furniture, however, is still stored in the basement of the school-house.

It is suggested that possibly the balance of this furniture may be sold or transferred to other State agencies as it must be constantly depreciating in value and deteriorating in appearance.

Pay Rolls: It was noted that the pay roll and regular State bank checks are of the same color and has resulted in the bank's charging the wrong account in several instances.

This matter was discussed with the treasurer and it was understood that when the present supply of pay roll checks is exhausted, they will be printed on a different colored check.

Bonding of Employees: It was noted that the senior bookkeeper, who is not bonded, handles a certain amount of cash.

It is recommended that steps be taken to arrange a bond for this employee.

It was further noted that there appears to be no money and security insurance coverage for the employee who deposits funds in the local depository, which is approximately five miles from the institution, and it is therefore recommended that this matter be taken care of.

Canteen: On August 29, 1953 fire destroyed a great part of the inventory of the canteen, which had been operated as a private enterprise. Since that date there has been no canteen in operation at this institution.

Inventories: Although the aggregate of the overages and shortages were comparable in the test inventory taken in connection with this examination, many individual items indicated wide variations.

In this connection it was noted that although the storekeeper asserts that an inventory is taken four times each year, no adjustments were made to bring the stock ledger accounts into agreement with the actual physical inventories of the respective items.

It is suggested that periodically inventories be taken and necessary adjustments be made in the stock ledger to correct account balances.

While the audit was in progress a second inventory was taken of the contents of the refrigerators. In checking this inventory, errors of omission and commission in recording issues on the requisition slips were noted.

Greater care should be exercised in recording issues on requisition slips if the stock ledger balance figures are to have any value.

Construction of Superintendent's House and Duplex House: It was noted that \$5,000.00 was paid to a contractor in settlement of a judgment rendered in Suffolk Superior Court with respect to a contract awarded under the provisions of Section 2 of Chapter 599 of the Acts of 1948 which was for the construction of a superintendent's house and a duplex house.

This settlement was occasioned by the failure of the Commonwealth in not having water connection lines installed on time.

The contract was awarded on July 2, 1949 and work started on August 17, 1949, and the contract for the water connecting lines was awarded on September 25, 1950, more than a year later.

#### PUBLIC BEQUEST COMMISSION

REPORT NO. 54-37

Accumulation of Fund: In this connection the previous report stated:

"Section 28C of Chapter 6 of the Tercentenary Edition of the General Laws reads as follows:

'Section 28C. Distribution of Income - When and so long as, the principal of said fund amounts to five hundred thousand dollars,



'said commission, with the approval of the governor and council, may distribute, in accordance with its rules and regulations relative thereto, the income from said fund to such worthy citizens of the commonwealth, as, in its opinion, by reason of old age and need, are entitled thereto. No man under sixty-five and no woman under sixty shall be deemed to be entitled to assistance from such fund.'

"It is noted that the total amount accumulated in this fund since September 1, 1929 is only \$3,961.85. Since no payments may be made from the fund until the principal amounts to \$500,000.00, it is apparent that unless contributions are increased to a far greater extent than those which have been received to date, there is little likelihood that the purpose for which the fund was created will ever be carried out."

There were no contributions received by this fund during the audit period.

## STATE SUPERINTENDENT OF BUILDINGS

REPORT NO. 54-39

**Contingent Liability on Completed Contract:** It was noted that on September 29, 1952, a contract for the installation of a freight elevator in the State House was awarded to the lowest bidder for \$67,525.00. On April 21, 1953 an extra work order for \$152.14 approved in writing by the Project Architect, the Superintendent of Buildings and the Massachusetts Public Buildings Commission, was granted to this contractor to cover certain changes in the contract. This project was accepted as completed by the State Superintendent of Buildings as of June 12, 1953, three days before the completion date stipulated in the contract. In this connection it was noted that the contractor filed a petition in court on August 28, 1953 against the Commonwealth claiming extra compensation in the amount of \$10,825.80 for alterations in the foundation of the freight elevator.

This petition alleges that, "The work specified in the said additional drawings constituted extra work provided for by Article XVII of the said contract and was performed by the petitioner at the direction of the said architect and of officials duly authorized to act on behalf of the Commonwealth at an agreed price of \$10,825.80."

An answer is being filed by the Attorney General's office denying the allegations of the petition and alleging that no extra work order was given in writing and approved by the Commission as required by Article XVII of the contract and that no written claim for extra compensation was filed as required by said Article XVII.

**Letter Contracts:** Section 8A of Chapter 29 of the General Laws, provides in part for the posting of a notice inviting proposals on contracts involving amounts from one thousand to five thousand dollars. It was noted, however, that contracts under one thousand dollars are awarded after proposals have been received by letter. An examination of these so-called "letter" contracts awarded during the current audit period indicated that 143 aggregating \$78,809.35 were awarded. The following summarizes these awards by type of work:

Description of Work	Total No. of Contractors	Total No. of Awards	Total Value of Awards
Painting	2	56	\$31,003 00
Plumbing	2	9	4,742 00
Heating	1	9	4,537 85
Electrical	4	7	3,217 50
Interior Wall Cleaning	1	11	4,922 00
Brass Refinishing	1	4	2,715 00
Asphalt Tile Flooring	1	6	2,401 00
Sheet Metal	1	3	890 00
General	3	38	24,381 00
Totals	<u>16</u>	<u>143</u>	<u>\$78,809 35</u>

**Assignment of Rooms in State House and Elsewhere:** Section 10 of Chapter 8 of the Tercentenary Edition of the General Laws as amended by Section 4 of Chapter 249 of the Acts of 1938, and Chapter 440 of the Acts of 1943, referring to the Superintendent of Buildings, states:

"He shall, under the supervision of the governor and council and with the approval of the commission on administration and finance, assign the rooms in the state house and rooms elsewhere used by the commonwealth, and may determine the occupancy thereof in such manner as the public service may require ....."

In conformance with the foregoing statute, certain private service enterprises have been allotted rent-free space in the State House.

## DIVISION OF BANKS

REPORT NO. 54-44

**Liquidation Expense Account:** The balance in the Liquidation Expense Account on the date of audit was \$1,631.50. This included receipts of \$1,129.16 and payments of \$810.58 during the current audit period.

**Examination of Banking Institutions:** Costs of examinations of the various institutions under the supervision of the Division of Banks are billed to the banks concerned. Charges for the examinations of co-operative banks, credit unions and savings banks are based on a percentage of the assets of these institutions concerned and do not in every case cover the actual cost of the examination.

During the period from September 12, 1952 to October 6, 1953, these respective costs and reimbursements were as follows:

	Costs	Reimbursement Billings	Difference
Savings and Loans Associations	\$ 2,160 71	\$ 2,160 71	-
Other Banking Institutions	6,843 85	6,843 85	-
Credit Unions	80,935 74	32,855 32	\$ 48,080 42
Trust Companies	151,741 15	151,741 15	-
Co-operative Banks	195,381 81	186,123 03	9,258 78
Savings Banks	248,347 00	193,532 80	54,814 20
	<u>\$685,410 26</u>	<u>\$573,256 86</u>	<u>\$112,153 40</u>

## VETERANS' BONUS COMMISSION

REPORT NO. 54-45

**Financing of Korean Bonus Payments:** Sections 9 and 10 of Chapter 440 of the Acts of 1953 define the method to be used in financing the payment of bonuses to Korean veterans.

Section 9 provides for the issuance of notes as a temporary means of financing such payments, while Section 10 provides for the refinancing through bond issues the notes authorized by Section 9 and for refinancing in the aggregate not more than \$30,000,000.00 of the bonds issued under the provisions of Chapter 608 of the Acts of 1946, the act which originally created the Veterans' Services Fund and provided for payment of a bonus to veterans of World War II.

Attention is directed to the requirements of Article LXII of the Amendments to the Constitution of the Commonwealth, which make it necessary that the term of bonds and notes be defined by legislative act prior to the borrowing of any money by the State Treasurer. By the adoption of Chapter 676 of the Acts of 1953, the General Court complied with the requirements of the Constitution only insofar as borrowing by bonds was concerned, but through an oversight this latter act did not include borrowing by means of notes. Since, under Chapter 440 of the Acts of 1953, bonds could be issued only to re-finance notes, the State Treasurer could not proceed to raise funds for the payment of the bonus. The need for a special legislative session was immediately apparent.

Soon after the approval on June 5, 1953 of the act providing for a bonus to veterans of the Korean war, the Veterans' Bonus Commission was created. Applications for payment of this bonus were accepted soon thereafter, and it was indicated to the interested veterans that payments would begin in September of 1953.

On August 20, 1953, despite the obvious omissions in Chapter 676, the Executive Council at a meeting presided over by the Lieutenant-Governor voted to authorize the Treasurer and Receiver-General to borrow \$15,000,000.00 on notes of the Commonwealth under Section 9 of Chapter 440. The Treasurer, for constitutional reasons, was unable to comply with the orders of the Lieutenant-Governor and the Council, and, as a result, on September 1, 1953, the Governor, through Executive Order No. 21, acting under the provisions of Chapter 639 of the Acts of 1950, ordered the State Treasurer to pay the cost of this bonus out of the treasury of the Commonwealth.



Attention is directed to the fact that the Governor possesses the authority to declare such an emergency under Chapter 639 of the Acts of 1950 only in the following conditions:

"... if and when the congress of the United States shall declare war, or if and when the President of the United States shall by proclamation or otherwise inform the governor that the peace and security of the commonwealth are endangered by belligerent acts of any enemy of the United States..."

This act provides for the safety of the Commonwealth during the existence of an emergency resulting from disaster or hostile action, and considerable doubt necessarily exists as to the legality and the propriety of the Executive Order issued by the Governor in this instance. It is almost immediately obvious that the difficulty in which the executive branch found itself should have been corrected by a special session of the Legislature rather than by a misapplication of emergency powers. Certainly there is reasonable doubt as to whether or not the Governor ever has the power to set aside the provisions of the Constitution of the Commonwealth, which state in Section 4 of Article LXII...

"Borrowed money shall not be expended for any other purpose than that for which it was borrowed or for the reduction or discharge of the principal of the loan."

As a result of bonus payments and because of extensive distributions of cash to the cities and towns by the former Commissioner of Corporations and Taxation upon his retirement, the cash position of the Commonwealth was seriously endangered, and, as a consequent result, despite the constitutional provision cited above, to restore the cash position of the Commonwealth \$15,000,000.00 was borrowed by order of the Governor and the Executive Council for the General Fund in anticipation of receipts from taxes. This borrowing provided temporary relief, but it is presently being followed up by borrowings of \$14,000,000.00 under the Highway Improvement Act of 1950; \$9,000,000.00 under Capital Outlay Loan Act of 1951, and \$2,500,000.00 under the Airport Improvement Loan of 1951, and it is immediately obvious that the proceeds of these borrowings will be placed in the general cash of the Commonwealth and used for other purposes than that for which it was supposedly borrowed, a procedure which is in violation of the previously quoted Section 4 of Article LXII of the Amendments to the Constitution of the Commonwealth.

Further attention is directed to the fact that repayment of \$14,000,000.00 borrowed under the Highway Improvement Loan will not begin until September 1, 1961.

Volume of Transactions: As of the close of business October 6, 1953, 57,122 applications for bonus payments had been received at the commission office and 26,783 items amounting to \$7,217,400.00 had been paid. The remaining 30,339 applications are in the process of being acted upon. In this connection it was learned that approximately 30% of all original applications examined are deemed in some respect to be irregular and must necessarily be held up until further detail or information is forthcoming. From observation it was learned that the principal reasons for delays in processing of applications were represented as follows:

1. Lack of signature
2. Incompleted applications
3. Insufficient or misleading information on the veterans' separation reports relative to foreign service, etc.
4. Insufficient evidence to establish residence

Bonus Application: Item 26 of the bonus application reads as follows:

26. Foreign and/or  
     Sea Service ..... Place .....  
                                 Years Months Days

On examination of the paid applications it was noted however that additional information was required from naval veterans in certain cases. Apparently a veteran who had been assigned to a ship is considered by the Navy as having sea service even though the

ship may not have left port during the veterans' assignment thereto, and so credits this time to sea service. For purposes of this bonus, however, the veteran, to be eligible for the maximum \$300.00 bonus, must serve "outside the continental limits of the United States". On applications where such sea service is indicated but no actual evidence of foreign service is presented, he is subsequently required to complete an additional form in which his service outside the continental limits of the United States should be proved. This procedure necessarily delays the processing of such applications.

It is therefore suggested that the phrase be more descriptive and that it be added to this item on all applications which are henceforth printed. This should tend to reduce the delays in processing applications in this particular category.

Cash Transactions: The permanent books of record of this commission consist principally of a Budgetary Control Register. No cash book or general ledger is maintained. It is suggested that a cash book be installed which should analyze cash receipts which are now obtained from the following three sources:

1. Advances from the State Treasurer
2. Refunds from applicants account of bonus overpayments
3. Voided bonus checks transmitted to State Treasurer with a receipts voucher

Authorizations for Payment - Korean Bonus: At present authorizations for payment of the Korean Bonus to applicants are periodically transmitted to the State Treasurer so that necessary entries will be made on his records. These authorizations are prepared by the commission from a report received from the Machine Bookkeeping section of the State Treasurer's Department. These authorizations at present indicate the gross value of all checks used and include voided checks. To adjust the authorizations to the amount actually disbursed the commission also remits a receipt voucher to the State Treasurer indicating the value and number of voided checks. It was understood that the principal reason for this method of handling voided checks is that the State Treasurer insists on accounting for every prenumbered check. The bank account from which these bonus payments are made is under the control of the State Treasurer and all checks are signed by him in that capacity, not as a member of the Veterans' Bonus Commission. Therefore, the accounting for all disbursements made should be handled entirely within the Department of the State Treasurer.

In this connection the Veterans' Bonus Commission should send to the State Treasurer daily an authorization for payment which would indicate the number and value of applications by denominations. A permanent record of these authorizations should be kept in the commission's offices and should also indicate the quantity and value of applications transmitted for payment. Periodically reconciliations should be affected between the commission's records and those under the control of the State Treasurer.

Accounts Receivable Resulting from Bonus Overpayments: A card file is maintained of each case where a veteran refunds bonus overpayments to the commission. Payments received from this source to date were made by veterans themselves who recognized they had been overpaid and who voluntarily returned such amounts. Receipt of these refunds was apparently the first knowledge that the commission had of the specific overpayments, and so the card record indicated was ostensibly prepared after the fact. It was further noted that this file gives no indication of amounts that might possibly be due from veterans. To the date of audit five veterans had voluntarily returned \$100.00 each representing such overpayments. It would appear that a recheck of all paid applications should be made to determine the accuracy of payments.

This entire matter was discussed with the director who stated that such a verification is planned in the near future when the backlog of applications to be processed for payment has been reduced.

In addition to the five cases of overpayments noted heretofore it was determined that two veterans had been issued checks by the State Treasurer in excess of amounts indicated by their applications as follows:

Application No.	Amount of Overpayment Uncollected as of October 7, 1953
5372	\$100 00
3259	200 00



It is suggested that information on these items and any subsequent similar items be supplied to this commission by the Department of the State Treasurer so that steps could be immediately taken to effect repayment.

**Bonded Employees:** It was noted that none of the employees of this commission are bonded. It is suggested that the director and those employees whose duties require them to handle cash and checks returned by the post office be bonded.

#### STATE TEACHERS COLLEGE AT BRIDGEWATER

REPORT NO. 54-51

**Beulah R. Brown Trust Fund:** During the period under audit the State Treasurer received \$5,000.00 which was brought on to the records in the Comptroller's Bureau as the Beulah R. Brown Scholarship Fund.

However, as of the date of audit, this fund was not reflected on the college records and correspondence seen indicated litigation is pending regarding the final disposition of this bequest.

**Deficiency Pay Roll:** As of the date of audit there was an appropriation deficiency for salary adjustments granted but not paid in the 1952 fiscal year in the amount of \$466.06. It is understood that this amount will be requested of the next session of the General Court.

**Overdue Accounts Receivable:** A review of the accounts receivable outstanding as of the date of audit indicated several small accounts which appear to be long overdue.

It is recommended that these accounts be referred to the Attorney-General for collection or disposition.

**Income:** During this period under audit a receipt for \$100.00 for board was forwarded two times to the State Treasurer. As a result the cash balance shows a deficit of \$34.00 in the income cash as of October 19, 1953, whereas it should have amounted to \$66.00.

While the audit was in progress a request was made of the State Treasurer to refund this amount.

**Cash Book:** It was noted that cash book entries could not be checked to bank deposits because generally pay roll checks of employees who had received advances during the month were included on the same deposit slips with the income cash and because income was not deposited in the order in which it was received.

As all pay roll advances are now paid directly by the State Treasurer this difficulty should not be encountered in the future, provided the income is deposited as it is received.

#### DIVISION OF BUILDING CONSTRUCTION

REPORT NO. 54-52

This Division was established on July 1, 1953 in accordance with the provisions of Chapter 612 of the Acts of 1953. The Chapter provides that all projects and appropriations of the Massachusetts Public Building Commission be transferred to this Division. This Act further provides that the Director shall prepare and submit annually to the Budget Commissioner a report of all projects requested, and his recommendations for a long range program for construction by the Commonwealth of buildings and related structures. The Chapter also provides that the Director shall have control and supervision of all building construction projects which are estimated will cost \$10,000.00 or more, as described by the Act. In this connection it is noted that the predecessor commission's obligations only extended to approving plans, specifications and contracts.

On the date of audit, plans and specifications had been completed on the 96 projects selected under the postwar program by the predecessor commission, and in addition to these projects 8 were selected and completed by that commission for plan preparation, and were financed by advances from the Federal Works Agency, Bureau of Community Facilities. The Federal Government has made \$154,358.00 available for these projects, and on the date of audit, \$154,064.88 had been received and expended to complete them. There has also been an additional appropriation of \$5,000.00 by the Commonwealth under authority of Chapter 669 of the Acts of 1949 to supplement the amount already granted by the Federal Government to be applied to the Mystic River Dam Project.

Chapter 756 of the Acts of 1951 authorized a total bond issue of \$23,250,000.00 known as the "Special Capital Outlay Program for the Commonwealth", and it further provided that plans, specifications and contracts be approved by this commission.

In addition there was authorized by Chapter 604 of the Acts of 1952 a bond issue of \$34,300,000.00 and by Chapter 660 of the Acts of 1953 a further bond issue of \$8,100,000.00.

## FOXBOROUGH STATE HOSPITAL

REPORT NO. 54-53

**Reconciling Sales Slips to Accounts Receivable Control:** In reconciling charges from sales slips to the Accounts Receivable Control account variances etc. were noted between the duplicate sales slip and the tissue copy remaining in the sales book for audit purposes with the result that a great deal of difficulty was encountered in effecting this reconciliation. This matter was brought to the attention of the proper personnel with the suggestion that the condition be corrected.

**Farm Report - Excessive Loss in Garden Fields:** It was noted that the Garden Fields loss for 1951 was \$2,832.10, while the loss for 1952 was represented as \$10,909.60. The reason advanced for the loss in 1952 was that a new head farmer charged all farm labor costs to this project.

**Canteen Variance:** A comparison of the physical inventory with the established book inventory as of November 2, 1953 indicated the physical inventory to be \$313.34 less than the book inventory in relation to sales of \$16,070.01.

## DEPARTMENT OF PUBLIC HEALTH

## GENERAL DEPARTMENT

REPORT NO. 54-55

**District Offices:** The district offices of this department were not visited in connection with this examination. Correspondence with the several district offices however indicated that certain income fees were being held by them pending receipt of additional information. In two instances the fees were retained for a period of three weeks. As this arrangement is contrary to the Comptroller's directives it is suggested that all income be deposited immediately upon receipt.

**Agreement with Red Cross:** The arrangement between this department and the American Red Cross was continued during the 1953 fiscal year on a reimbursement basis. Reimbursements for this period amounted to \$71,955.40. Unpaid reimbursements for the period July 1, 1953 to September 30, 1953 totaled \$1,590.26 and were still unpaid as of October 19, 1953.

**1953 Fiscal Year Liability Not Recorded on Books:** An audit of the charges to the appropriation account for "Payment of Subsidies to Cities and Towns for Tubercular Patients in Certain Hospitals" for the 1953 fiscal year indicated that there were included bills totaling \$448,699.51 which were applicable to the 1951 calendar year and \$9,566.37 prior to 1951. Early in 1953 the Division of Tuberculosis and Sanatoria in this department received from the several cities and towns the subsidy bills for the year ended December 31, 1952. On April 22, 1953 after verification by this Division, these bills which totaled \$447,237.62 were sent to the department's fiscal office for final verification and payment. However, the department records on June 30, 1953 indicated that no entry had been made on its books to encumber these invoices for the 1952 calendar year, apparently because the 1953 appropriation had been exhausted in paying comparable bills for the 1951 calendar year.

**New Chronic Disease Hospital - Illegal Contract:** Attention is called to the fact that the original contract for the New Chronic Disease Hospital was declared illegal by the Supreme Judicial Court on April 8, 1952. At that time payments amounting to \$789,712.20 had already been made on it.

This matter was turned over to the Attorney General for disposition. Subsequently in September 1952 another contract was awarded to the same contractor after new bids had been received and in June 1953 the Attorney General requested that \$900,000.00 be withheld from the general contractor on future payments due on that new contract under the provisions of Section 17 of Chapter 29 of the Tercentenary Edition of the General Laws until final determination of the matter of the recovery of the payment on the first contract could be made.

It was further noted that the contractor submitted a certified statement indicating that the cost of the work completed on the original contract was \$1,371,895.06 exclusive of claims from sub-contractors.



**New Chronic Disease Hospital - Original Designer:** The previous audit report stated that a lawsuit had been brought against the Commonwealth by the original designer to collect a fee for services from June 1946 to July 1948. His contract was terminated in December 1949. It was noted that the suit was settled in the amount of \$55,000.00 and payment was accordingly made from the Special Appropriation for the New Chronic Disease Hospital in March 1953.

**New Chronic Disease Hospital:** The contract completion date for the new hospital is June 30, 1954; it is anticipated that it will be opened to receive patients on July 1, 1954.

Its maintenance appropriation accounts are currently being maintained in the fiscal office of this department and it is understood that they will be turned over to the Treasurer of the new hospital when it is opened.

This appropriation for the fiscal year 1954 was \$103,300.00.

#### ATTORNEY GENERAL

REPORT NO. 54-56

**Accounts Referred for Collection:** Prior audit reports have commented upon the difficulty of making an audit under the present system of keeping records by the so-called card docket file. It has been suggested that this file, which is now alphabetically maintained by names of persons, should be supplemented by a file arranged by State Departments and Institutions. Since such an arrangement has not been put into operation, it is again recommended that this be done and that under each State subdivision there should be a record of each individual or concern owing money to a State agency. Periodic verification of these records should be made by correspondence with the Departments and Institutions.

**Appropriation Deficiency:** The deficiency noted in the previous audit report, in the amount of \$693.65, in the Veterans' Legal Assistance Appropriation for 1952 was paid during the 1953 fiscal year with funds specifically provided.

**Bonds:** The position of chief clerk is bonded for \$1,000.00. However, the legal assistant of the Attorney General who handles all collections in the first instance is not bonded. It is therefore recommended that he too be bonded.

#### GRAFTON STATE HOSPITAL

REPORT NO. 54-57

**Return of \$12,599.17 Cash Advance from 1953 Appropriation Treated as an Expenditure by the Comptroller's Bureau:** In connection with reconciling the 1953 maintenance appropriation with Comptroller's Bureau as of the date of audit, it was noted that the closing entries of June 30, 1953 had increased the expenditures for the 1953 fiscal year by \$12,599.17.

The following reason was advanced for this entry:

"Return of Advance Cash under the following accounts received after Comptroller's deadline, therefore handled as an expenditure in the 1953 fiscal year:"

<u>Account Number</u>	<u>Amount</u>
01	\$12,002 49
02	596 68
	<u>\$12,599 17"</u>

It was understood that the deadline for the return of advance money as defined by the Comptroller's Bureau was set at July 10, 1953. The institution prepared a receipts voucher and a check for the necessary amount on July 9, 1953 and mailed them to the business office of the Department of Mental Health. Because the check did not reach the office of the State Treasurer before the stipulated date the amount was considered to be an expenditure for the 1953 fiscal year. This amount is being currently carried by the Comptroller's Bureau on its records as a credit to the 1954 fiscal year's income accounts and it has advised the institution to do likewise.

On the basis of the foregoing it appears that the institution is being charged with expenditures totaling \$12,599.17 in excess of those actually incurred during the 1953 fiscal year and will be credited with a comparable amount as miscellaneous income during the 1954 fiscal year.

**Variances Between Quarters Register and Pay Roll for Room Rents:** In this connection the previous audit report stated as follows:

"In checking the amounts authorized to be deducted from employees' salaries on the pay roll with the 'Quarters Register', a considerable number of variances, both overcharges and undercharges, were noted.

"This situation was discussed with the institution Treasurer who stated that the 'Quarters Register' will be reviewed and any necessary adjustments will be forthwith effected."

A great deal of improvement was noted in these records during the current audit period, minor variances which still were noted were called to the attention of the institution treasurer who indicated that further steps will be taken to correct the situation.

**Occupancy of Room by Employees Without Charge:** It was noted that Room 2 in the Administration Building was being used by an employee who is not being charged rent. This employee also occupies an adjacent room for which she is charged on the pay roll. This matter was called to the attention of the proper officials and it was suggested that the necessary steps be initiated to make the additional charge.

**Reconciliation of Pay Roll Bank Account:** It was noted that a variance of \$1.32 existed between this record and the bank's account as of the date of audit. It was understood that a complete reconciliation of this account had not been made since May 30, 1953. This matter was discussed with the institution treasurer who advised that immediate steps would be taken to trace the aforementioned difference and that future reconciliations will be effected currently.

**Patients' Fund - Old Outstanding Checks:** It was noted that there were a number of checks in this Fund which had been outstanding for more than one year, as of the date of audit two of them had been outstanding for more than seven years.

It is recommended that payment be stopped on these checks and the status of the patients to whom the funds were issued be reviewed. It is possible that this money should be forwarded to the Department of Mental Health as funds of deceased, discharged or escaped patients.

**Canteen Theft:** The previous audit report stated as follows in this regard:

"On the morning of Saturday, July 12, 1952, the canteen was broken into by a person or persons unknown and ostensibly merchandise valued at \$526.89 was stolen. The State Police were notified at that time as was also the Department of Mental Health. To date of audit the responsibility for this theft has not been established."

It was learned that four men who were apparently neither employees nor patients at this hospital were arrested and criminally prosecuted in connection with this and other thefts in the vicinity of the institution. On or about May 7, 1953, an attorney, who represented one of the parties who it was alleged had been the receiver of the stolen goods, gave the hospital superintendent the sum of \$250.00 to be applied as restitution in this matter, apparently at the direction of the court.

## DEPARTMENT OF AGRICULTURE

### GENERAL DEPARTMENT

REPORT NO. 54-58

**General:** The principal purpose of the Dairy Bonding Law is ostensibly to protect the financial interests of Massachusetts producers in the event of certain contingencies. Bonds provided by this statute and their processing is controlled by a section within the Department of Agriculture which is known as the Dairy Bonding Section, operating directly under the control of the Commissioner of Agriculture.

**Dairy Bonding - Trust Deposit Control Accounts:** The Trust Deposit Control Accounts in the general ledger of this department consist of the following:

1. **Miscellaneous Trust Deposits** - Notes secured by Savings Bankbooks, Stocks, Real Estate Mortgages, Life Insurance Policies, and Miscellaneous Stocks and Bonds.
2. **Bond Trust Deposits** - U. S. Treasury Bonds. Miscellaneous Trust Deposits Control Account is charged with the excess of notes received over notes returned and is credited with the excess of notes returned over notes received. The Bond Trust Deposits Control Account is adjusted in accordance with necessary changes in bond coverage.



In connection with the foregoing, it is suggested that control accounts for each different type of collateral now collectively included in the Trust Deposit Miscellaneous account be maintained in the general ledger, and that each such account be charged with the total value of notes received and be credited with the total value of notes returned.

**Dairy Bonding - Certified Check:** It was noted that on November 3, 1953 there was on hand in the Dairy Bonding Section a certified check dated December 16, 1952 for \$325.00 representing collateral. This check was sent to the State Treasurer for safe-keeping on December 2, 1953. It is suggested that in the future certified checks be forwarded promptly to the State Treasurer.

**Dairy Bonding - Collateral to be Returned:** It was noted that on November 3, 1953 there was collateral on hand for the accounts of 12 inactive operators totaling \$3,903.39, made up as follows:

9 Bankbooks	\$1,553 39
1 Real Estate Mortgage	850 00
2 Surety Bonds	<u>1,500 00</u>
	<u>\$3,903 39</u>

It was also noted that the 9 bankbooks were in the inactive category at the time of the previous examination. It is suggested that as soon as practical after an operator becomes inactive, the collateral be returned to him.

It is further suggested that a control account be set up in the general ledger for all items of inactive collateral to which transfers be made promptly from the Active Control account.

**Dairy Bonding - Producers Exempt from Security:** The previous audit report stated:

"Section 42E of Chapter 94 of the Tercentenary Edition of the General Laws states as follows:

'If an applicant for a license under section forty-two A is a producer of milk or cream, or both, and, in addition to that produced by him, purchases per day from other producers not more than one hundred quarts of milk or its equivalent in cream or in milk, and cream, as determined by the commissioner, and if the commissioner is satisfied from an investigation of the financial condition of the applicant that he is solvent and possessed of sufficient assets to reasonably assure compensation to his present and future creditors, the commissioner may, by an order filed in the department of agriculture, relieve such applicant from filing a bond or other security.

"It will be noted that the foregoing specifically relieves an applicant, under certain conditions, from filing a bond or other security upon an order filed by the Commissioner.

"It was noted, however, that during the audit period no such exemption orders were found to be on file in the department. Certain milk plant operators' applications for license were found bearing the initials of the Acting Commissioner, in the section reserved for Bond Requirement, on the application with a notation 'None' or 'No Bond Required'. It is suggested that a proper order form be used for such exemptions and that they be available within the department for use in connection with future audits."

As there has been no change, attention is again called to this matter.

**Milk Bonding Notes Partially Secured:** On the date of audit it was noted that one dealer's note was not completely secured. The note was for \$18,000.00 and the collateral was valued at only \$17,000.00, leaving \$1,000.00 of the note unsecured. During the course of the audit additional collateral was received by the department making the note fully secured.

**Milk Plant Operators' Licenses:** In reconciling the potential income from the Milk Plant Operators' Licenses as issued with the actual income received, it was noted that

there were 4 licenses assigned but not issued for which the cash had been received and transferred to the State Treasurer. These licenses were still pending for the 1953 license year as of the date of audit and the operators concerned had apparently continued to do business throughout the year without actually having on hand the necessary licenses. Cash was received for these licenses between February 3, 1953 and March 25, 1953.

From information available within the Milk Bonding Section, of the foregoing dealers 3 were classified as being held for necessary increases in bond requirements totaling \$7,600.00 and one was an out-of-state dealer from Rhode Island.

It is suggested that immediate action be taken to have the above 3 dealers provide the additional collateral to fulfill their legal obligations or else be precluded from functioning. During the course of the audit it was noted that one of the 3 dealers mentioned submitted additional collateral, making his required bond fully secured. In regard to the out-of-state dealer, it is recommended that his fee be refunded if he cannot be licensed.

**Milk Plant Operators' Licenses:** The previous audit report stated:

"It is suggested that licenses of Milk Plant Operators discontinuing business be returned to the Bonding Section where they should be left on file."

Since the above situation still exists on the present date of audit, attention is again directed to a compliance with the suggested procedure.

**Application for Poultry Dealer's License:** In this connection the prior audit report stated:

"In several instances the applications for these licenses for the year ending December 31, 1952 were not completed and questions pertinent to bond coverage were allowed to remain unanswered."

During the current audit it was again noted that applications were not completed particularly in connection with bond coverage data. It is, therefore, again suggested that these dealers be obliged to completely answer all questions indicated on the application form.

**License Forms - Poultry Dealers:** The prior audit report stated:

"At present the same license form is used for the \$2.00 fee - 1st truck; and for the \$.50 fee for each additional truck. It is suggested that separate license forms be used for each type of license; that these forms be numbered serially in advance and that the amount of the fee be printed thereon."

The current examination again indicated failure to comply with this comment. It is, therefore, recommended that the necessary changes be made to effectuate the necessary controls over this type of income.

**Poultry Dealers' Surety Bonds:** The previous audit report stated:

"It was noted that there were \$868,200.00 surety bonds of this category on hand October 27, 1952. Inasmuch as there was no control account for them on the department general ledger, it is again suggested that one be established."

During this audit it was noted that the aforementioned control account has been established as suggested, beginning January 1, 1953.

**Poultry Dealers' Collateral - Surety Bonds Foreclosed:** None were foreclosed during the period under audit. On the date of the previous audit there was \$10,000.00 on deposit in the State Street Trust Company, Boston, Massachusetts, which represented a foreclosure of a surety bond and as no payments have been made from it during this audit period, it still remains on deposit.

**Poultry Inspections:** In this connection the previous audit report stated:



"To the date of the audit 16 inspections of this nature involving \$180.00 had been made and were billed as of October 28, 1952 and November 6, 1952."

This audit indicated that 30 poultry inspections had been made prior to November 3, 1953, but had not yet been billed. It was subsequently noted that of these inspections, 7 were billed on November 10 and the remainder on November 24, 1953. It is suggested that billings for this type of income be made currently.

**Agricultural Marketing Research U. S. Grant:** The records indicate that the following transactions were passed through this account during the 1953 fiscal year:

Balance July 1, 1952	\$ 156 48
United States Allotment Received	2,885 67
	<u>\$3,042 15</u>
Expenditures	3,035 46
Balance June 30, 1953	<u>\$6 69</u>

These funds were expended for part of the salary of an agricultural statistician who also received \$744.54 from State funds, or a total of \$3,780.00. An analysis of the State funds expended on this project for the 1953 fiscal year follows:

Part of Salary of Agricultural Statistician	\$ 744 54
Temporary Clerks	1,840 05
Travel	46 86
Printing and Binding	119 75
	<u>\$2,751 20</u>

It was further noted that the Federal allotment for the 1954 fiscal year will be \$3,400.00.

**Mosquito Control Assessments, Maintenance Assessment Fund - Town of Fairhaven Delinquent:** In connection with the examination of these records, it was noted that three towns were delinquent on November 3, 1953, as follows:

<u>Town</u>	<u>Amount Certified by the State Reclamation Board to be Raised and Appropriated by the Town</u>	<u>Amount Paid by Commonwealth</u>	<u>Amount due Commonwealth</u>
Fairhaven	\$2,500 00	\$2,000 00	\$500 00
Freetown	250 00	None	250 00
Essex	600 00	None	600 00

Since the date of audit, November 3, 1953, it was noted that the amounts due by the towns of Freetown and Essex were cleared on the annual settlement of November 20, 1953. However, the town of Fairhaven is still indebted to the Commonwealth in the aforementioned amount of \$500.00 according to the records in the Department of Agriculture.

**Mosquito Control Funds Restricted Revenue:** Under authority of Chapter 252 of the General Laws of the Tercentenary Edition, as amended, the Comptroller's Bureau annually estimates the amount of the so-called assessments against certain cities and towns. On June 30, 1952 there was an accumulated surplus of \$3,167.47 from this fund as indicated by the records of the Comptroller's Bureau. As of June 30, 1953 the accumulated surplus in this fund was only \$1.27.

The prior audit report recommended that necessary accounts be opened on the books of this department so that these surplus items might be properly recorded. Since this situation still prevails, attention is again directed to the necessity of installing these accounts in the general ledger of the department.

**Time Records Not Available for Pay Rolls of Certain Mosquito Projects:** Upon examination of pay rolls and detailed time records, it was noted that time records were not available for the following Mosquito Projects:

Nantucket Trust Fund  
Nantucket Maintenance Project  
Martha's Vineyard Project  
East Middlesex Control Project  
South Shore Trust Fund  
Berkshire Mosquito Control Project

It is suggested that such records be made available.

**Industrial Accidents:** It was noted that out of 9 accidents occurring during the calendar year 1952, one employee received compensation of \$213.57 from the Department of Industrial Accidents for the disability period from August 5 to September 19, 1952. It was further noted that this employee had been employed from August 4 to August 8 and from August 11 to August 16, 1952, and received wages totaling \$45.00. It is recommended that the portion of the compensation applicable to the time actually employed be refunded.

**Accounts Receivable Control Account:** The previous audit report stated:

"It was noted that there was a difference of \$2.00 between this control balance and the respective individual accounts receivable as of October 27, 1952. It is suggested that permission be obtained from the Comptroller's Bureau to adjust the difference after it is determined, providing that its cause cannot be identified."

In this connection it was noted that a journal entry dated March 31, 1953 for \$2.00 was made which adjusted the foregoing situation.

**Accounts Receivable Ledger:** In this connection the prior audit report stated:

"It was noted that page postings references are omitted from the individual accounts in the ledger. It is suggested that each entry show by reference, the cash book page, the journal entry number, or other source of the entry."

It was noted in connection with this audit that the foregoing comment has been complied with.

**Accounts Receivable - Old Accounts:** It was noted that two fruit and vegetable inspection accounts have been outstanding more than one year.

It is suggested that they be turned over to the Attorney General for disposition.

**Fees Account of Duplicate Dairy Certificates:** In this connection the prior audit report stated:

"These certificates are not prenumbered so that any reconciliation of income through inventories is impossible. It is again suggested that subsequent supplies of these certificates be prenumbered in advance by the printer."

Inasmuch as this situation still exists, it is again recommended that steps be taken to correct it.

**Fruit and Vegetable Inspections:** In this regard the previous audit report stated:

"The Fruit and Vegetable Inspection Certificates are occasionally sent directly to the Department's inspectors in the field by Federal officials and others are sent to the Department of Agriculture, therefore no possible control of income through serially numbered certificates could be established. It is again suggested that this matter be reviewed so that the income from this source may be controlled."

In connection with this examination it was noted that a record of the certificates sent to inspectors from the Federal office in Boston is maintained by the Federal Agency. Attention is, however, again directed to the necessary survey of this matter for income control purposes.



Rentals: Attention is directed to the fact that a lease for the space used by this Department in the building at 41 Tremont Street, in Boston, Massachusetts, at \$10,783.50 per year expired June 30, 1952 and from July 1, 1952 to November 30, 1952 this department was a tenant-at-will. Another lease effective December 1, 1952 was negotiated at an annual rental of \$15,799.05.

Three tabulating machines are rented from the International Business Machines Company for \$260.00 per month. There was, however, no copy of a lease or rental agreement available in the files of this department in this connection.

Agricultural Purposes Fund: This fund was created under authority of Chapter 390 of the Acts of 1947 and Chapter 319 of the Acts of 1948. Accounts for it, however, are not carried in the general ledger of this department. Appropriations from this fund for the 1953 and 1954 fiscal years totaled \$74,790.00 and \$85,000.00 respectively. Receipts totaled \$110,214.81 in 1953 and \$125,181.63 in 1954.

Reimbursements by the U. S. Department of Agriculture: It was noted that the Commonwealth was reimbursed by the United States Department of Agriculture in the amount of \$965.99 on January 19, 1953 for services rendered by a State employee in connection with check-loading of almonds. This reimbursement was computed as follows:

Salary - 53 Days @ \$13.33	\$706 49
Mileage - 4,325 Miles @ 6¢	259 50
	<u>\$965 99</u>

Rodent Control: On the basis of an agreement dated June 4, 1953, this department paid \$8,000.00 to the Treasurer of the United States for rodent control purposes. This agreement was made for the period of one year ending June 30, 1954 with the United States Department of the Interior, Fish and Wildlife Service for co-operative rodent control activities in this commonwealth.

In this connection the previous audit report stated:

"Although summary reports are filed with this Department showing certain expenditures within the State, it is suggested that there should also be available a statement of the detailed expenditures made from the \$8,000.00 paid by this Department."

Since records of detailed expenditures are not yet available on the date of audit, attention is again directed to the necessity of having such records to substantiate the Commonwealth's share of expenses.

#### DIVISION OF LIVESTOCK DISEASE CONTROL

REPORT NO. 54-59

Detailed Time Records: In checking the pay roll for September 1953, it was noted that no official time records are maintained for Administration and Permanent Veterinarians and Agents except in instances of absences, which are noted in a diary by the head clerk. At the end of each month the date of absences and their reasons are transferred to the individual personnel cards.

It is suggested that a daily time report be incorporated with the division's records.

Reimbursements to Owners of Certain Livestock: Attention is directed to the fact that Chapter 19 of the Acts of 1953, which was an emergency act and became effective on February 3, 1953, provided for the cooperation with the Federal Government in the eradication of certain animal diseases. This act further provided for payment by the Commonwealth to the owner of animals which were necessarily slaughtered because of affliction with certain diseases. Section 2 of this statute also appropriated for these purposes the sum of \$100,000.00.

Attention is further directed to the fact that Chapter 655 of the Acts of 1953, which was also an emergency act and became effective on July 3, 1953, specifically repealed Section 2 of Chapter 19 of the Acts of 1953, thereby withdrawing the original appropriation.

However, in the interim period there had been expended for these purposes from this appropriation the sum of \$20,894.86, leaving a balance which was reverted in the amount of \$79,105.14. It was also noted that there were approximately 60 cases pending reimbursement when the appropriation was stopped.

## COMMISSION ON ADMINISTRATION AND FINANCE

REPORT NO. 54-61

GENERAL: In this connection the previous report stated:

"Prior audit reports have commented at length on the increasing complexities of the accounting system of the Commonwealth, since in recent years, due only in part to statutory changes, the State accounting system has gradually shifted from a cash system to a modified accrual system with greatly increased costs. It is the opinion of this Department that these changes are superfluous, since the various State departments, institutions and agencies are limited in their expenditures to amounts appropriated by the General Court for their maintenance and, therefore, the accounting system should be essentially maintained on a cash basis.

"The more cumbersome of these changes have resulted from adoption of an allotment and encumbrance system, supposedly as a means of more effective control over expenditures. A review of the record of these systems indicates no improvement in control and they have proved expensive to maintain and, at the same time, have needlessly complicated the bookkeeping of every agency of the Commonwealth."

Allotment System: In this connection the previous report stated:

"Section 9B of Chapter 29 of the General Laws provided for the installation of the allotment system, which ostensibly was intended to prevent overdrafts, but in reality represented a transfer of legislative authority to the executive branch of the State Government. While this statute has never been tested, considerable doubt exists as to its constitutionality.

"Despite the substantial costs of maintaining the allotment system, deficiencies continue and prior audit reports have shown that they have actually increased. In the interests of economy and simplification, the Commission should advocate repeal of this section."

Encumbrance System: In this connection the previous report stated:

"Section 29 of Chapter 29 of the General Laws requires that the Comptroller:

'.... shall refuse to permit a disbursement or the incurring of an obligation if funds .... sufficient to cover such disbursement or obligation .... are not available.'

"As a direct result of this statute, it became necessary for the Comptroller to apply the encumbrance system to all state accounts maintained by his Department.

"Basic financial responsibility for incurring an obligation in excess of an appropriation should rest with the head of the individual agency concerned since the Comptroller, operating without encumbrances, can still stop any expenditures in excess of amounts appropriated and this should be his primary duty.

"In this connection, the previous audit report stated:

"Maintenance of the encumbrance system has added expensive red tape to operations of the financial controls of the Commonwealth and has not provided any additional control. In addition, it has placed responsibilities upon the Comptroller that belong with the head of each spending agency."



"The mandatory provisions of Section 29 of Chapter 29 of the General Laws which relate to this subject should be removed, and this would permit the Comptroller to use discretionary judgment as to the methods that he shall use to control appropriations."

**ANNUAL REPORT:** Attention is directed to the provisions of Section 33 of Chapter 7 of the General Laws which states as follows:

"The commission shall, annually on or before the second Wednesday in January, submit to the general court a printed abstract of its annual report, exhibiting a full and accurate statement of the financial condition and transactions of the commonwealth for the preceding fiscal year; ...."

This statute distinctly calls for a "full and accurate statement of the financial condition .... of the commonwealth".

Attention is also directed to the provisions of Section 34 of the same chapter, which states as follows:

"Such report shall contain a summary statement of the receipts into, and payments from, the treasury of the commonwealth for the preceding fiscal year; a detailed statement of such receipts and expenditures, including obligations, whether paid or unpaid, ...."

This section requires that the annual report of the Commission shall include obligations of the Commonwealth, "whether paid or unpaid" as of the date of the report and, therefore, the Commission is required to report the financial condition of the Commonwealth and include in that report a statement of all unpaid obligations.

In this connection attention is further directed to the fact that the annual reports issued by the Commission as Public Document 140, and the abstract issued as House No. 500 do not comply with the provisions of the law, since unpaid obligations of the Commonwealth, which on June 30, 1953 totaled more than \$29,000,000.00, had not been included.

Such obligations not included in these reports represent reimbursements due certain cities and towns of the Commonwealth for funds actually expended locally. A list of these items by appropriation classifications follow:

<u>Department Administering Appropriation</u>	<u>Period Reimbursable</u>	<u>Item</u>	<u>Fund</u>	<u>Amount Outstanding June 30, 1953</u>
Public Welfare	July 1952 to June 1953	Aid to Dependent Children	General	\$ 5,979,146 76
Education	July 1952 to June 1953	School Superintendents in Small Towns	General	181,989 99
Education	July 1952 to June 1953	Transportation of Pupils in Certain Towns	General	2,547,683 94
Education	Sept. 1, 1950 to Aug. 31, 1951	Vocational Education	General	14,192 48
Education	Sept. 1, 1951 to Aug. 31, 1952	Vocational Education	General	3,843,539 84
Education	Sept. 1, 1952 to June 30, 1953	Vocational Education	General	3,202,949 87*
Education	Sept. 1, 1952 to June 30, 1953	Adult English Speaking Classes	General	94,325 22
Public Health	Jan. 1, 1952 to Dec. 31, 1952	Tubercular Patients in Certain Hospitals	General	447,237 62
Public Health	Jan. 1, 1953 to June 30, 1953	Tubercular Patients in Certain Hospitals	General	226,375 87
Judiciary	Sept. 1, 1952 to June 30, 1953	Reimbursement - Suffolk County Court House Expenses	General	134,557 97

Public Welfare	July 1952 to June 30, 1953	Grants in Aid	Old Age Assistance	\$11,164,526 55
Veterans' Services	Jan. 1952 to June 1952	Veterans' Benefits	Veterans' Services	1,816,369 30
				<u>\$29,652,895 41</u>

\* Estimates based on most recent fiscal year payments to cities and towns.

**Aid to Dependent Children:** Section 6 of Chapter 118 of the General Laws provides for partial reimbursement to cities and towns by the Commonwealth as Aid to Dependent Children.

A review of the expenditures charged to item 1904-10 of the 1953 - 1954 fiscal year's appropriation for the period from July 1, 1953 to November 18, 1953 indicated that reimbursements totaling \$5,979,146.76, which were applicable to the 1952 - 1953 fiscal year, had been paid to cities and towns from the appropriation of the 1953 - 1954 fiscal year. On July 1, 1953 the unexpended balance of the previous year's appropriation, which totaled \$112,205.30, was brought forward but no record of the aforementioned liability of the 1952 - 1953 fiscal year appears in the abstract of the 1952 - 1953 annual report of the Commission on Administration and Finance.

**School Superintendents in Small Towns:** Section 65 of Chapter 71 of the General Laws (Tercentenary Edition) provides for partial reimbursement to small towns by the Commonwealth for salaries paid to Superintendents of Schools. An examination of the expenditures charged to item 1301-51 of the 1953 - 1954 appropriation for the period from July 1, 1953 to November 30, 1953 indicated that reimbursements totaling \$181,989.99, which were applicable to the 1952 - 1953 fiscal year, had been paid to certain towns from the appropriation of the 1953 - 1954 year. The aforementioned liability affecting the Department of Education is not included in the abstract of the 1952 - 1953 annual report of the Commission on Administration and Finance.

**Transportation of Pupils:** Section 8-A of Chapter 71 of the General Laws provides for partial reimbursement to certain towns by the Commonwealth for transportation of certain pupils. In examining the expenditures charged to item 1301-53 of the 1953 - 1954 appropriation for the period from July 1, 1953 to December 21, 1953, it was noted that reimbursements totaling \$2,350,000.00, which were applicable to the previous fiscal year, had been paid to certain towns from the latter fiscal year's appropriation. In addition, there appeared to be outstanding liabilities totaling \$197,683.94, which were applicable to the earlier year, still unpaid on December 21, 1953. The aforementioned liabilities also do not appear in the abstract of the 1952 - 1953 annual report of the Commission on Administration and Finance.

**Vocational Education:** Sections 9, 10, 11 and 12 of Chapter 74 of the General Laws provide for partial reimbursement to certain cities and towns by the Commonwealth for the expenses of maintaining Agricultural and Industrial Vocational Schools.

In reviewing the expenditures charged to item 1301-54 of the 1953 - 1954 appropriation for the period from July 1, 1953 to December 21, 1953, it was observed that reimbursements totaling \$3,825,366.44, which were applicable to the school year from September 1, 1951 to August 31, 1952, had been paid to cities and towns from the appropriation of the 1953 - 1954 fiscal year. In addition, there were outstanding liabilities totaling \$18,173.40, which were applicable to the 1951 - 1952 school year, and \$14,192.48, which were applicable to the 1950 - 1951 school year, still unpaid on December 21, 1953. It was further noted that the Department of Education had not completed its audit of the invoices for Vocational Education applicable to the 1952 - 1953 school year. The outstanding liabilities due to cities and towns for the period September 1, 1952 to June 30, 1953, based on the audited expenditures for the 1951 - 1952 school year, it is estimated will be \$3,202,949.87. This latter amount, it is believed, is a conservative estimate in view of the fact that the last two months of the year are generally less expensive. Attention is also directed to the fact that the following liabilities for Vocational Education do not appear in the abstract of the 1952 - 1953 annual report of the Commission on Administration and Finance:



Audited Invoices for the 1951 - 1952 School Year	
Paid from 1953 - 1954 Fiscal Year Appropriation	\$3,825,366 44
Audited Invoices for the 1951 - 1952 School Year	
Awaiting Approval by the Department of Education	18,173 40
Audited Expenditures 1951 - 1952 School Year	\$3,843,539 84
Audited Invoices for the 1950 - 1951 School Year	
Awaiting Approval by the Department of Education	14,192 48
Estimated Liabilities for the Period September 1,	
1952 to June 30, 1953 (10/12 of \$3,843,539.84,	
1951 - 1952 School Year)	3,202,949 87
Unpaid Liabilities June 30, 1953	<u>\$7,060,682 19</u>

**Adult English Speaking Classes:** Section 10 of Chapter 69 of the General Laws provides for partial reimbursement to certain cities and towns by the Commonwealth for Adult English Speaking Classes.

It was noted that as of November 30, 1953 the Department of Education had made reimbursements totaling \$75,577.77, applicable to the school year 1952 - 1953, from the appropriation of the following year. In addition, there were outstanding liabilities totaling \$18,747.45, applicable to the earlier school year, which were still unliquidated. These above liabilities did not appear in the abstract of the 1952 - 1953 annual report of the Commission on Administration and Finance.

**Tubercular Patients in Certain Hospitals:** Section 76 of Chapter 111 of the General Laws provides for subsidies to cities and towns by the Commonwealth for the care of tubercular patients in certain hospitals.

An examination of the expenditures charged to item 2010-05 of the 1953 - 1954 appropriation for the period from July 1, 1953 to October 6, 1953 indicated that subsidies totaling \$447,237.62, applicable to the 1952 calendar year, had been paid from the 1953 - 1954 fiscal year appropriation. In addition, outstanding liabilities to cities and towns for the period January 1, 1953 to June 30, 1953, based only on audited invoices for the 1951 and 1952 calendar years, is estimated to be \$226,375.87. These liabilities of the Department of Public Health are not recorded in the abstract of the 1952 - 1953 annual report of the Commission on Administration and Finance.

**Reimbursement - Suffolk County Court House - Maintenance:** Section 6 of Chapter 474 of the Acts of 1935 commits the Commonwealth to reimbursing the City of Boston for 30% of the annual maintenance and operation costs of the Suffolk County Court House. These expenses are originally paid with City of Boston funds.

It was noted that on June 30, 1953 the balance of the appropriation account for "Reimbursement - Suffolk County Court House - Maintenance" totaled \$28,860.35. It was noted that expenditures charged to the 1953 - 1954 appropriation applicable to 1952 - 1953 totaled \$163,418.32. The liability outstanding as of June 30, 1953 amounted to \$134,557.97 but does not appear in the abstract of the 1952 - 1953 annual report of the Commission on Administration and Finance.

**Grants in Aid:** Section 8 of Chapter 118-A of the General Laws provides for partial reimbursement to cities and towns by the Commonwealth for assistance to certain aged persons.

An examination of the expenditures charged to item 3601-20 of the 1953 - 1954 appropriation during the period from July 1, 1953 to December 21, 1953 indicated that reimbursements totaling \$11,164,526.55, applicable to the 1952 - 1953 fiscal year, had been paid to cities and towns from the 1953 - 1954 appropriation. This liability of the Department of Public Welfare also does not appear in the abstract of the 1952 - 1953 annual report of the Commission on Administration and Finance.

**Veterans' Benefits:** Section 6 of Chapter 115 of the General Laws provides for partial reimbursement to cities and towns by the Commonwealth for Veterans' Benefits.

An examination of the expenditures charged to items 3501-11 and 3501-12 of the 1953 - 1954 appropriation for the period from July 1, 1953 to November 30, 1953 indicated that reimbursements totaling \$1,816,369.30, which were applicable to the six months ending June 30, 1953, had been paid from the appropriation of the 1953 - 1954 fiscal year. No record of the foregoing 1952 - 1953 fiscal year's liability appears in the abstract of the 1952 - 1953 annual report of the Commission on Administration and Finance.

**Highway Fund:** In contrast to the manner in which the Commission failed to report

the status of the several appropriations heretofore enumerated, it appears to have substantially understated the financial condition of the Highway Fund as of June 30, 1953.

In reviewing the abstract of its annual report (House No. 500) for the fiscal year ended June 30, 1953 it was noted that Federal Aid Funds available to the Highway Fund totaling \$26,917,032.63, to be paid upon the completion of construction of certain projects from allocations granted by the Federal Government prior to June 30, 1953, were omitted from Schedule XI "Highway Fund - Comparative Statement of Surplus for 1953 and 1952". This schedule indicated a deficit of \$6,115,325.92 in the Highway Fund as of June 30, 1953. This deficit as reported resulted from the inclusion of Reserve for Balances Forwarded of \$32,483,834.19 in Statement X "Highway Fund - Balance June 30, 1953" as a deduction from Total Cash and Securities. An analysis of this Reserve account as of June 30, 1953 indicated that it was comprised of outstanding encumbrances totaling \$19,515,146.48 and of unencumbered appropriation balances totaling \$12,968,687.71. Since Federal Aid Funds available to the Commonwealth on June 30, 1953 are also applicable to both fiscal periods, it appears inconsistent for the Commission to include these unencumbered appropriation balances in its financial statement while omitting Federal Aid Funds amounting to \$26,917,032.63 from the same statement.

The Federal Aid Funds available to the Department of Public Works as of June 30, 1953, follow:

Federal Aid Funds Available July 1, 1952	\$24,487,205 36
Add:	
Apportionment 1954 Fiscal Year	10,156,401 00
	<u>\$34,643,606 36</u>
Deduct:	
Reimbursements for the 1953 Fiscal Year	7,726,573 73
	<u>\$26,917,032 63</u>

#### Analysis of Federal Funds Available

June 30, 1953

Current:	
Accounts Receivable (Completed Construction)	\$ 389,830 07
Deferred:	
Contract Agreement (Incompleted Construction)	11,224,362 91
Projects in Plan, Specification and Estimate	
Stage	2,331,095 50
Projects in Program Stage	6,297,046 00
Unprogrammed	<u>6,674,698 15</u>
Total Federal Aid Funds Available	<u>\$26,917,032 63</u>

Annual Report - Valuation of Securities at Market Value: Section 35 of Chapter 7 of the Tercentenary Edition of the General Laws requires that the annual report of the Commission shall include the following:

"..... In making such report the commission shall estimate the value of securities at their market value at the time of making its report ....."

It was noted that neither House No. 500 nor the Comptroller's annual report for the fiscal year ended June 30, 1952 contained this information.

Rules and Regulations for Disposition of Grievances: Chapter 30 of the General Laws as amended by Chapter 485 of the Acts of 1945 which inserted Section 53 states in part, as follows:

"The commission on administration and finance shall, subject to the approval of the governor and council, make rules and regulations providing informal procedure for the prompt disposition of any grievance of any employee of the commonwealth,....."

On the date of audit there was not available any records in the office of the Secretary of the Commonwealth to indicate that the Commission on Administration and Finance had ever filed an attested copy of the rules and regulations required under this statute.

It is recommended that the existing statute be complied with forthwith.



**General Fund Surplus:** The "Monthly Report of State Funds" for the period July 1, 1952 to May 31, 1953, as published by the Comptroller's Bureau and based partly on estimates furnished by the Budget Bureau, reflected an estimated surplus in the General Fund of \$4,970,295.00. However, in June 1953 when the Commonwealth's books were closed an actual surplus of \$12,629,782.72 appeared in the General Fund. With eleven months of the fiscal year having elapsed to May 31, it would appear that the monthly report referred to should have reported more accurately the surplus in the General Fund. A difference of approximately \$8,000,000.00 can certainly not be considered factual representation.

**Purchase Bureau - Supply Room:** Listed in the stock ledgers of the Supply Room was an item for \$230.19 for bus parts, which were represented as being stored at the Grafton State Hospital. While taking the physical inventory items, it was noted that the bus parts were no longer located there having been sold in January 1953 and the proceeds thereof having been credited to the accounts of the Westborough State Hospital which had arranged the sale.

While the audit was in progress an adjustment was made on the ledgers of the Supply Room which corrected the matter.

**Supply Room - Accounts Receivable:** It was noted that the Mental Health Appeal Board appears to owe the Supply Room an outstanding balance of \$13.27. Inasmuch as this agency is no longer in existence, it is recommended that steps be taken to charge off this balance from the books.

**Minutes of the Commission's Meetings:** An examination of the minutes of the Commission's meetings was made and it was noted that they are of an informal nature and not signed by the Chairman and the Members of the Commission. It is suggested that this important record be maintained on a more formal basis.

**Real Estate Ledger:** The present audit was concluded on December 31, 1953 at which date the Real Estate ledger maintained by the Comptroller was not completely posted, therefore, a trial balance for audit purposes could not be compiled. It is recommended that Real Estate accounts be established on the books of the various agencies of the Commonwealth and that they be required to submit valuations of such holdings at a date early enough so that proper records may be maintained currently.

**Department of Corporations and Taxation Lease:** As of April 30, 1953 a lease was negotiated between the lessor of a building at 18 Tremont Street, Boston and the Commonwealth whereby the Department of Corporations and Taxation agreed to occupy its entire fourth floor comprising 14,875 square feet at a yearly rental of \$40,162.50 for the five year period from July 1, 1953 to June 30, 1958. In this connection the following facts applicable to this office space were noted:

- a. Rooms #424 to #449 comprising approximately 50% of the fourth floor were not occupied until August 1, 1953.
- b. Rooms #401 to #403 and Rooms #406 to #414 comprising an additional 25% were not occupied until February 11, 1954.
- c. Rooms #404, #405 and Rooms #415 to #423 comprising the remaining 25% were still unoccupied on February 12, 1954.

**Department of Public Welfare - Lease Abandoned:** It was noted that the Department of Public Welfare discontinued occupancy of its Pittsfield District Office on February 16, 1953 in compliance with Section 10-B of Chapter 602 of the Acts of 1952 which limited that Department to five district offices outside the Boston office. The office in Pittsfield contained approximately 1,200 square feet of office space and was under lease for a period of five years beginning May 1, 1951 at an annual rental of \$1,800.00. The Comptroller's records indicate that rent has been paid on this property only to December 31, 1952. It appears that the Commonwealth is responsible for the rent in this connection from January 1, 1953 to February 16, 1953 and possibly for damages resulting from the abandonment of the space prior to its expiration.

**Department of Corporations and Taxation - Cambridge Street Lease:** A visit was made to the Department of Corporations and Taxation storeroom located on Cambridge Street, Boston where approximately 5,500 square feet of floor space is used for storing

obsolete, broken and discarded office furniture and equipment. Additional floor area consisting of about 10,900 square feet is used for the storing of obsolete books, records and tax returns. This practice of storing non-usable furniture or equipment at an annual rental of \$1.00 per square foot appears to be an unreasonable expenditure which involves approximately \$5,500.00 per year.

The statutes permit State departments to dispose of obsolete or non-usable items with the consent of the State Purchasing Agent. It is understood that certain departments are micro-filming important books and records, thereby curtailing expenditures for storage rentals to a fraction of their former cost. It is suggested that the Department of Corporations and Taxation look into the feasibility of micro-filming its books and records with a view to reducing these apparent expensive storage charges.

**Civil Defense Agency and State Planning Board - Leases Canceled:** It was noted that the lease of the Civil Defense Agency for the rental of 8,220 square feet in a Boylston Street building at an annual rental of \$2.50 per square foot and the lease of the State Planning Board for the rental of 4,110 square feet in the same building at an annual rental of \$2.50 per square foot were both canceled as of June 30, 1953. These two leases were replaced by a single lease negotiated by the Department of Commerce whereby that new State agency agreed to occupy the same 12,330 square feet of office space for a five year period beginning July 1, 1953 at an increased annual rental of \$2.95 per square foot. Because of this action, total additional costs of \$14,796.00 to the Commonwealth will accrue since the leases of the Civil Defense Agency and the State Planning Board were both canceled thirty-two months prior to their expiration date, which would have been on February 28, 1956.

In connection with the foregoing, it is not clear why the Department of Commerce did not continue the original leases for this space without executing a new lease. As a matter of fact it was noted that the original Civil Defense Agency lease for the period from March 1, 1951 to February 28, 1956 contained the following special provision:

"..... AND THE LESSEE HEREBY reserves the right to designate and substitute to any other Department of the Commonwealth, use of the space now set forth by the Lessee as that for the Civil Defense Agency."

It was further noted that the State Planning Board lease for the original period, March 1, 1951 to February 28, 1956, includes the following proviso:

"..... Containing approximately four thousand one hundred ten (4,110) square feet of space to be used at present by the Commonwealth of Massachusetts, for its State Planning Board."

As a matter of explanation it is noted that this particular office space is presently being used by the Division of Planning, the change in name having been authorized by Chapter 409 of the Acts of 1953.

This matter was discussed with officials of the Department of Commerce who indicated that the increase of \$.45 per square foot under the new lease was to reimburse the lessor of the building for alterations made to the offices vacated by the Civil Defense Agency and for increased janitor service to the offices of the new State agency, as follows:

- a. \$.25 per square foot for additional janitor service.
- b. \$.20 per square foot for cost of alterations prorated over the entire 12,330 square feet.

In this connection the following excerpts from the canceled leases and the present lease relative to "janitor service" are shown:

Excerpt from Civil Defense Agency Lease

"SAID rent to include water for use on the premises, janitor service, including washing windows, emptying waste baskets, the care of corridors, toilets and stairs, and sufficient heat when necessary during the said term to keep the above premises at a comfortable temperature."



Excerpt from State Planning Board Lease

"SAID rent to include water for use on the premises, janitor service, including washing windows, emptying waste baskets, the care of corridors, toilets and stairs, and sufficient heat when necessary during the said term to keep the above premises at a comfortable temperature."

Excerpt from Department of Commerce Lease

"Said rent to include water for use on the premises, janitor service, including washing windows, emptying waste baskets, washing and waxing floors, dusting office furniture and woodwork, care of corridors, toilets and stairs, including the provision of sufficient paper towels, soap and toilet tissue, and sufficient heat when necessary during the said term to heat the above premises at a comfortable temperature."

There are no available records in the Department of Commerce to indicate the amount that was expended by the lessor for alterations now being reimbursed at the rate of \$.20 per square foot for the five year period of the new lease.

Metropolitan District Commission - Parks Division - Lease Canceled: On June 24, 1953 the Chairman of the Metropolitan District Commission canceled a lease between its Parks Division and the lessor of a building located on River Street, Cambridge, because it did not include the approvals of the State Superintendent of Buildings, the Commission on Administration and Finance and the Governor and Council as is required by Section 10-A of Chapter 8 of the Tercentenary Edition of the General Laws. This lease included 7,500 square feet of space at a rental of \$5,000.00 per year for a three year period commencing November 1, 1952. Even though the Metropolitan District Commission had control of these premises from November 1, 1952 to June 24, 1953, the Comptroller's records indicate that monthly rent payments had been made only for the period from November 1, 1952 to January 31, 1953. It was noted that the rental payment for the month of February 1953 in the amount of \$416.66 is being held in the State Treasurer's office pending settlement of the lessor's claim against the Commonwealth for unpaid rent to June 24, 1953 and alleged breach of the above lease.

Division of Building Construction - New Lease: It was noted that the newly created Division of Building Construction, which is the successor to the Massachusetts Public Building Commission, vacated its old offices at the Metropolitan District Commission Building on September 30, 1953 and engaged offices at 38 Chauncy Street consisting of 7,144 square feet of office space at an annual rental of \$21,432.00 for the five year period beginning October 1, 1953. The former offices consisted of 1,700 square feet of space at an annual rental of \$2,175.00. The change in location was considered necessary to provide facilities for additional Engineering and Office personnel, etc.

Division of Fisheries and Game - New Lease: It was noted that the Division of Fisheries and Game vacated its offices at the Ford Hall Building on September 30, 1953. Its new offices are located at 73 Tremont Street, Boston, where they leased 2,582 square feet of office space at an annual rental of \$7,500.00 for the five year period beginning October 1, 1953. This action was apparently necessary to provide adequate housing space for office personnel.

Rentals: An examination of the leases on file in this Department indicates that the Commonwealth is currently paying rentals in excess of \$1,400,000.00 per year for the use of office, storage and garage space by State agencies. It was further noted that the respective leases were not of a uniform nature. As a result, many leases had to be examined in their entirety before it could be determined whether a renewal option was available to the Commonwealth or whether certain recurring maintenance costs were to be borne by the lessor or the Commonwealth. It is suggested that the Commission on Administration and Finance adopt a uniform type of lease for use by all state agencies.

## DEPARTMENT OF CORRECTION

## GENERAL DEPARTMENT

REPORT NO. 54-63

**Prison Camp:** There is at present one camp at the Myles Standish State Forest in Plymouth which was opened on May 22, 1952. The general books are maintained by the Department of Correction senior bookkeeper. Although all entries are made in one cash book, separate postings are made to the general ledger and separate monthly financial reports are prepared. One bank account is used for the department and the prison camp. Separate general ledger closing entries are issued by the Comptroller for the Department of Correction and the Prison Camp.

During the period under audit it was noted that \$285.00 was paid in the form of gratuities to certain prisoners released from this camp.

Income receipts consisted of \$5.00 for witness fees, and \$279.00 for the sale of meal tickets to employees.

**Parole Board:** The records of this board indicate that \$327.84 was given to discharged prisoners as loans or gratuities during the audit period. During the same period \$27.00 was repaid on loans.

Income for the period was \$150.50 and consisted of \$120.40 damage to a State-owned automobile, \$3.10 witness fee and the \$27.00 repaid on loans.

**Department of Correction - Bid Deposits:** Included in the cash balance of \$55.94 on November 4, 1953 was \$10.00 received as a deposit on plans and specifications.

## STATE AIRPORT MANAGEMENT BOARD

REPORT NO. 54-65

**Income:** Attention is directed to the fact that cash receipts from airline operators using the airport facilities and from other commercial rentals totaled \$905,142.76 for the 1953 fiscal year and represents an increase of approximately \$117,000.00 over the previous year. The comparative receipts for the past five fiscal years were as follows:

1949	\$382,772 91
1950	445,838 61
1951	648,378 53
1952	787,830 72
1953	905,142 76

It should also be mentioned that the total earned income during the 1953 fiscal year was \$866,913.70 - the difference between this figure and the cash receipts indicated was reflected in a corresponding decrease in accounts receivable balances.

**Logan Airport - Employees' Bond Fund:** It was noted that a general ledger control account has been established to record the amounts held for employees for the purchase of Savings Bonds. On November 9, 1953 the Employees' Bond Fund Account in the National Shawmut Bank of Boston indicated a balance of \$77.08.

**Logan Airport - Accounts Receivable:** It was noted that four old accounts totaling \$83.92 were charged off as uncollectible during the period under audit after authorization was received from the Attorney General.

**Logan Airport - Lease of Temporary Terminal Building:** In this connection the previous audit report stated:

"The previous audit report commented on the fact that a tenant who leased the Temporary Terminal Building owed \$13,166.67 for rent plus \$1,132.32 for certain fees for which the tenant, under his lease, disclaimed liability.

"On the date of the current audit this same tenant was \$1,500.00 in arrears for rent for the month of December 1952. This particular lease expired and he now is a tenant at will. It is understood that a new lease is presently being negotiated.

"It was further noted that the charges for fees amounting to \$1,132.32 were canceled by a vote of the Board on August 15, 1952."



It was noted that a new lease was negotiated for one year effective January 1, 1953 at an annual rental of \$15,000.00 payable \$3,750.00 quarterly in advance. However, the quarterly payment due October 1, 1953 was still unpaid as of the date of audit. Steps should be taken to enforce the payments of the quarterly rentals at the times specified by the lease. It was further noted that this particular lessee had sub-let space at rents totaling \$12,480.00 for the year.

Proposed New Hangar - American Airlines: Chapter 733, Acts of 1951 authorizes the construction of a new hangar, "provided, however, that before any money provided for by this act is expended for any purpose whatsoever said commissioner shall secure a binding lease for a term of not more than twenty-five years, with the approval of the governor and council, with a responsible air transportation company providing, in addition to all other airport charges, an annual hangar rental thereunder sufficient to amortize the cost of such hangar including the interest provided for in section two of this act, within the term of such lease".

To meet the expenditures necessary for the construction of the hangar, section two of the act authorizes the issuance of bonds by the State Treasurer, upon the request of the Governor and Council, to an amount not exceeding \$2,500,000.00. The bonds shall bear interest semi-annually, at such rate as the State Treasurer, with the approval of the Governor, shall fix.

It was noted that on June 16, 1952 a lease between the Commonwealth of Massachusetts and American Airlines, Inc. was signed. The term of this lease is twenty-five years and its provisions stipulate that American Airlines shall pay as rent, in equal quarterly installments, in advance, an annual amount equal to the sum of the following items:

1. One twenty-fifth of the cost of construction of the hangar, apron areas, utilities and other costs, said costs are not to exceed \$2,500,000.00;
2. Interest for one year on the unamortized balance of the cost of construction at a rate equal to the interest rate borne by the obligations issued by the Commonwealth to finance the construction;
3. Six cents per square foot per annum for the entire ground area, constituting the demised premises, including the ground area on which the hangar is situated. (This item will amount to approximately \$30,000.00 to \$35,000.00 per year).

Attention is directed to the fact that a contract for the construction of this hangar was awarded to the lowest bidder of record on June 24, 1953 at the adjusted bid price of \$2,213,776.00. Construction has already been started by the contractor.

Pumping Station and Air Conditioning System: In connection with these two items the previous audit report stated:

"Pumping Station: It was noted that the new pumping station was practically completed on the date of audit. It is understood that this building will be turned over to this Board in the near future.

"Air Conditioning System: It was noted that an air conditioning unit, located in the Heating and Power Station, had never been used. Pipes, connecting the unit to the Apron Building, are in place but the system in the Apron Building is incomplete."

With respect to the foregoing it was again noted that the Pumping Station had not yet been accepted by the Board to the date of audit. It was further noted that the Air Conditioning System in the Apron Building had not yet been completed as of the date of audit.

Services - Non-Employees: Under the provisions of Chapter 637, Acts of 1948, the Commissioner of Airport Management shall employ, subject to appropriation, legal counsel and assistants to maintain books of account establishing detailed cost systems of airport operations and to conduct negotiations for leases and rentals for use and occupancy of property and buildings on State-owned airports, and clerical personnel. He may, subject to appropriation, incur such other expenses as may be necessary to enable him

to exercise and perform the powers and duties conferred or imposed upon him by Chapters six and ninety, including the expense of publicizing and advertising all State-owned airports.

In this connection it was learned that two consultants engaged by the Board are being paid from bond funds and it is again questioned whether these payments are properly chargeable to these issued. It is again suggested that these expenditures from bond funds be replaced by a transfer from maintenance funds.

It was further noted that agreements with the aforementioned two consultants had been renewed, one for one year ending June 30, 1954, and the other beginning May 1, 1953 and continuing on a month-to-month basis, renewable or terminable on thirty days notice by either party.

**Logan Airport - Restaurant Concession:** In this connection the previous audit report stated:

"At a meeting of the Board held on April 28, 1952, an abatement of \$2,000.00 per month was voted for a certain restaurant concessionaire. This abatement was to be effective for twelve months beginning April 1, 1952, and created a new minimum basic fee of \$35,497.44 for the twelve months' period. The reason indicated for this action was that space had been leased to another concessionaire in the restaurant business and that the original concessionaire had consequently suffered a substantial loss in receipts."

In further connection with the foregoing matter it was noted that at a meeting of the Board held on July 22, 1953 it was voted to adjust the monthly payments to \$3,500.00 for the period from April 1, 1953 to March 31, 1954. It was also stipulated that if at the end of that period the amount computed on the percentage basis exceeded \$42,000.00, there would be deducted from that sum an amount of \$17,497.44 only to the extent that the twelve months basic payment of \$42,000.00 shall remain as a minimum payment.

**Logan Airport - Materials and Supplies Inventory:** A complete inventory of materials and supplies on hand was taken on November 9, 1953 and compared with the control balances in the Stock Ledger, with the following results:

	Number of Items	Value
Inventory per Stock Ledger (Includes Accounts Payable)	335	\$24,690 39
Add:		
Overages per Physical Count	22	470 82
		<u>\$25,161 21</u>
Less:		
Shortages per Physical Count	24	814 66
Physical Inventory		<u>\$24,346 55</u>

In addition to the regular inventory items controlled by the foregoing Stock Ledger accounts, there is also stored in the stock room many items which have been charged to maintenance expenses or construction costs. Because many of these items, particularly those charged to construction costs are expensive, it is suggested that some control should be provided for them.

In this connection, the following excerpt from the Comptroller's Accounting Manual is quoted:

"If it is desired, spending agencies may keep a separate stock ledger form as a reference and record book for items which are not entered in the materials and supplies ledger, but are charged directly to expenses. The accounts in this book, if kept, should be arranged in the same order as they are grouped in the monthly financial report."

It was noted that certain materials and supplies transferred from Hanscom Field, Bedford Airport to Logan Airport had been recorded with the March 1953 issues of \$3,688.25 on the Bedford records. The book value of the items transferred to the Logan Airport was \$3,586.65, and as they had already been recorded at the Bedford Airport as



expenses in March, they had not been brought on to the stock ledger at the Logan Airport. It is suggested, however, that these items be carried in the Logan stock ledger as memorandum accounts, so that a book control of them may be available.

**Hanscom Airport - Release of Certain Airport Land and Buildings to United States Air Force:** It was noted that an agreement was negotiated on February 25, 1952 leasing a certain part, and also transferring by deed another part of that airport to the United States Air Force. This agreement was submitted to the Attorney General for approval. Another agreement providing that the United States Air Force agrees to relocate, move and construct facilities and utilities thereto in buildings all now occupied by the Commonwealth and its tenants without cost to the Commonwealth was also negotiated at that time. To the date of this audit, no action had yet been taken on the relocation of these Commonwealth facilities.

**Leases and Agreements:** Attention is directed to the fact that certain lessees have been negligent in carrying out requirements of their rental agreements, particularly with respect to the filing of certain required financial statements and also regarding prompt rental payments.

It is urged that all lessees be prompted to fill the necessary statements and make the required payments as specified in the terms of their respective leases or agreements.

It is further suggested that all the financial or other statements filed bear the signature of the proprietor where the business is conducted by an individual, or by an officer if it is operated by a company or corporation.

**Vending Machine Agreement:** It was noted that a five year agreement with a certain vending machine company, which became effective October 1, 1950, has been serviced for some time by an organization with a different name. If the original agreement has been assigned or sublet it is apparently a violation of the original agreement as one of its conditions calls for prior written consent of the lessor. It is also understood that detailed financial statements have never been received from this company, and the payments have been constantly in arrears.

It is suggested that immediate attention be given to this matter and any violations should be immediately corrected.

**Vending Machine Agreements Expired:** It was noted that three vending machine agreements expired in September 1953, yet no new agreements have been negotiated to the date of this audit. The same lessees were still operating the machines and paying commissions on the basis indicated on the agreements which have been expired. It is suggested that henceforth new agreements be negotiated prior to the actual date of expirations of all agreements and leases.

**Reserve Boat:** It was also noted that a reserve boat or "crash boat" so-called, was sold September 10, 1953 to the highest bidder of record for \$5,893.50. A letter from the State Purchasing Agent dated August 18, 1953 which was seen, indicated information about the bids and also granted the necessary permission to sell the boat.

**Damage Claims - Billings:** Billings for damage claims are prepared after responsibility has been determined. The maintenance reports indicated three damage claims still not billed as of November 9, 1953, as follows:

<u>Date</u>	<u>Amount</u>
June 24, 1953	\$213 88
October 28, 1953	17 38
October 29, 1953	400 24
	<u>\$631 50</u>

**Cleaning Contracts - Boutwell Building:** Contract No. 64 for cleaning was originally awarded on the basis of an alternate proposal for a period of nine months ended March 31, 1953, and was later extended to June 30, 1953. It was noted that payments had not been made however, for the three months ended June 30, 1953 as of the date of this audit.

It was further noted that Contract No. 81 was awarded to the same company. This contractor, however, was the second lowest bidder with a bid of \$36,090.94. The lowest bid of \$25,784.00 was withdrawn after the company submitting it stated a loss of \$8,000.00 or more would be incurred if they accepted it. The lowest bidder also forfeited its \$300.00 performance deposit posted when filing its bid. This second contract

was for the year ending June 30, 1954, no payments had yet been made on it to the date of this audit.

**Hanscom Field - Materials and Supplies:** The control account for materials and supplies in the general ledger indicated that its balance had been reduced from \$11,058.69 on December 1, 1952, to \$3,375.28 as of October 31, 1953. Merchandise valued at \$3,688.25 was entered on these records in March as issued after they had been transferred to the Logan Airport. It was further noted in February 1953, total issues of \$3,101.75 appeared in this account, yet only a small part of it represented actual expenses while the remainder was for materials and supplies stored in buildings other than the regular storeroom, which, through an apparent misunderstanding had been recorded as being issued in that month.

In this connection a certification was received from the Airport Manager on December 23, 1953 indicating that the issue slips and an enclosed statement and schedule to that effect were true and correct. As part of the audit routine several of these buildings where the materials and supplies were stored were visited and it was ascertained that the unused items as indicated were actually on hand.

**Hanscom Field - Accounts Receivable:** It was noted that of the total balances of \$8,163.49, appearing in the list of accounts receivable as of November 9, 1953, one in the amount of \$6,869.17 is long overdue. It would appear that the Board has been most lenient in dealing with this Company, and it is suggested that an organized effort be made to collect this overdue balance forthwith.

**Hanscom Field - Stores Requisitions:** It was noted that requisitions for materials and supplies were not signed by the receiver of the materials. It is suggested that all such items be receipted for by whomever in authority receives them.

**Hanscom Field - Bedford Airport - Leases and Agreements:** It was noted that certain lessees were not complying with the terms of their agreements relative to the filing of statements of gross receipts and/or other information required. It was also noted that the necessary payments were not being made by them currently. It was further noted that a representative or employee of the Airport was not present when collections from vending machines were made.

It is suggested that the foregoing conditions be corrected.

## AERONAUTICS COMMISSION

## REPORT NO. 54-66

**Reimbursement to Cities and Towns for Airport Construction Projects:** During the current audit period funds were expended from special appropriations for construction work at various municipal airports within the Commonwealth. The Federal Government, the Commonwealth and the various municipalities concerned, participated in the program for airport construction projects in the approximate ratio of 50%, 25% and 25% respectively.

All contracts awarded under this program are approved by the Massachusetts Aeronautics Commission. Under provisions of appropriating acts for the 1950 and subsequent fiscal years the approval of contracts by the Massachusetts Public Buildings Commission is no longer required. The progress of the work is checked by engineers of the Massachusetts Aeronautics Commission.

Invoices are presented to the Massachusetts Aeronautics Commission by the municipalities for reimbursement from the Commonwealth of 25% of construction costs which is the maximum reimbursement allowed by General Laws, Chapter 90, Section 39F.

Checks are sent by the Federal Government payable to the Massachusetts Aeronautics Commission as agent for the municipalities concerned.

The Commission deposits these checks in a separate bank account and almost immediately draws checks on this account payable to the several municipal airports where work is being performed under the program.

Apparently the amounts awarded by the Federal Government under the program are not controlled by the Commonwealth.

The following schedule indicates the amounts of Federal and State aid paid to cities and towns for airport construction from March 23, 1953 to December 21, 1953:

<u>City or Town</u>	<u>State Aid</u>	<u>Federal Aid</u>	<u>Total</u>
Nantucket	-	\$ 6,441 30	\$ 6,441 30
Worcester	\$105,362 08	193,322 13	298,684 21



Hyannis	-	\$ 8,541 70	\$ 8,541 70
Westfield	-	16,280 96	16,280 96
Beverly	-	40,258 00	40,258 00
Chatham	1,386 86	2,500 55	3,887 41
New Bedford	-	51,054 52	51,054 52
Dukes County	-	12,563 10	12,563 10
Pittsfield	-	3,499 47	3,499 47
Fall River	24,899 78	-	24,899 78
Martha's Vineyard	6,250 00	-	6,250 00
	<u>\$137,898 72</u>	<u>\$334,461 73</u>	<u>\$472,360 45</u>

Registration of Federal Certificates by Resident Airmen, Owners and Operators: Section 49 of Chapter 90 of the General Laws provides that all resident airmen, owners and operators of all aircraft, shall register the Federal certificates of said airmen and of said aircraft with the Commission. It was again noted that no fees are charged by the Commission for such registrations.

#### CIVIL DEFENSE AGENCY

REPORT NO. 54-67

Civil Defense Agency - Cities and Towns Trust Funds: Account No. 6815-97-01-36: The various cities and towns in the Commonwealth may be advanced money from this account for the direct purchase of defense equipment. The balance in this account as of November 10, 1953 was \$451,952.89 which was entirely encumbered. Account No. 6816-97-01-36: The several cities and towns may purchase defense equipment from this account with their own funds and be reimbursed by the Federal Government on a fund matching basis. The Federal Government may also advance funds upon request by the cities and towns for purchases to the Civil Defense Agency, and, upon receipt of matching funds from the cities and towns, may make such purchases and submit bills to this Agency where they are processed for payment. The balance in this account as of November 10, 1953 was \$174,421.21 of which \$10,961.98 was encumbered.

Civil Defense Agency - State Trust Funds: Account No. 4128: From this account, advances are made by the Federal Government to match funds of the Commonwealth which are spent for the defense program. There was a balance in this account of \$176,321.48 on November 10, 1953. Account No. 4129: From this account an advance was made by the Federal Government to the Commonwealth to pay the cost of transporting trailers from the middle west to the tornado stricken Worcester area. There was a balance of \$1,677.43 in the account on November 10, 1953.

Storage of Medical Supplies: It was noted that certain medical supplies stored at one of the institutions were located in a barn. In this connection their containers were noted to be in a damp condition because of water leakage. It is understood from the Director of this Agency that since that time these supplies were taken from that particular institution and relocated.

Rotation of Drugs: It is understood that recommendations have been made by the executive medical officer that all antibiotics and drugs with an expiration date which are stored in stockpiles of medical supplies are to be used and replaced by public and private institutions before said expiration date occurs.

Transfers of Litters: On the date of audit litters were being transferred from the stockpiles to the first aid stations and therefore it was not possible to reconcile the inventory of litters to the stock records because of the large number of transfers in process.

Inventory Control: The control of inventories of supplies account is now maintained in a stock ledger by individual classifications. In some cases this is controlled only in units and not for monetary value. These ledger accounts also indicate the specific location of the materials. Other items of materials particularly communications equipment is posted only to a card file showing the location of the equipment and not to the stock ledger.

The Agency does not maintain a general ledger therefore a monetary control for inventories is not possible.

In connection with the control of these inventories, reference is made to the final audit report of the Governor's Committee on Public Safety, which was the agency of the Commonwealth which controlled civilian defense activities during World War II. That audit report included the following comments with reference to the control of inventories of supplies, etc.:

"State Property: An audit report issued by this Department on August 15, 1942, in referring to State Property purchased by the Committee on Public Safety, reads as follows:

'During the existence of this Committee purchases of materials and supplies such as blankets, cots, medical chests, medical supplies, batteries, radio equipment, etc., valued at thousands of dollars had been made. It is understood that these supplies have been and will continue to be sent to various sections of the Commonwealth. In connection with the distribution of these articles there are no records maintained of their issue or of their location, and it is felt that unless some records are maintained to establish the location of these inventories the possibility exists that control over them will be lost. It is, therefore, recommended that the Comptroller's Bureau be consulted and that some system be installed by them to control these supplies and equipment.'

"As a result of this recommendation, the Committee set up an inventory system for the control of property. These records, however, never were adequate inasmuch as the greater part of the equipment known to have been purchased was not included in these accounts.

"The lack of these records has proved a tremendous handicap in the final liquidation of the affairs of the Committee on Public Safety, and as a direct result it is impossible to determine the distribution of the assets originally purchased or otherwise obtained by the Committee.

"The Purchasing Bureau has attempted during the past year to recover non-expendable assets, but because of the utter confusion and scarcity of proper records, the Bureau was unable to develop any routine or procedure for the recovery of this state-owned equipment. Some of the equipment, however, originally held by the Committee was recovered and transferred to other state agencies. For the work done the Purchasing Bureau deserves commendation since a great deal of time and effort was expended without which it is certain the recovery of this property to any great extent would have been impossible.

"Because of the lack of these records, a great deal of time and effort was also expended by representatives of the Department of the State Auditor in going through the files of the Comptroller's paid vouchers in order to develop a listing of all purchases. Even though this listing was finally completed it was determined to be inadequate as further investigation established that a great deal of equipment had been transferred to the Committee by state departments, etc., without record.

"To summarize, a great deal of time was spent by both the Purchasing Bureau and the Auditor's Department in attempting to determine the disposition of state-owned property, and it is impossible to establish any schedule of state property for which the Committee can be held accountable, therefore, the amount of actual loss to the Commonwealth cannot be determined.

"Attention is directed to the fact that if property records of the type referred to in the previously mentioned audit report had been installed, recovery of the state-owned property would have been quickly effected and the loss to the Commonwealth would have been minimized."

It is suggested that a complete survey be made by the Commission on Administration and Finance of the entire bookkeeping and inventory control arrangements, taking into consideration all the difficulties experienced previously in accounting for the supplies, so that there will be no possibility of a recurrence of the aforementioned problems.

Cash Advances and Reimbursements: It was noted that during the 1953 fiscal year this Agency received from both the Federal Government and the various cities and towns more than \$800,000.00 in advances and reimbursements. These receipts were posted



directly to accounts in the Budgetary Control Register as there is no cash receipts book in use. It is suggested that the Comptroller's Bureau consider the possibility of installing a cash book for the handling of these items.

#### MYLES STANDISH STATE SCHOOL

REPORT NO. 54-68

**Bond:** It was noted that the junior clerk in the Treasurer's office whose duties include the handling of funds is not bonded.

It is recommended that steps be taken in this direction.

**Canteen Income:** The canteen income consists of commissions from vending machines and donations. The standard State bookkeeping system for Canteens has not as yet been installed for the handling of these accounts.

It was noted that representatives of the vending machine concessionaires make collections and subsequently commission checks are mailed to the institution. In this way no verification of collections and commissions is possible.

It is recommended that the procedure be reviewed and a more adequate system of control of income from vending machines be arranged.

**Store Requisitions:** It was noted that several of the material and supplies stores requisitions could not be located.

It is recommended that the attention of institution personnel who handle such requisitions be directed to the necessity for accurate accounting for all such requisitions.

**Farm Accounts:** Several clerical errors were noted in the 1952 farm report. However, they did not materially affect the results of farm operations as indicated by the 1952 farm report.

**Farm Operations:** The farm profit for the 1952 farm year was \$2,332.52 as compared with \$17,637.30 for the 1951 farm year.

It is noted that this variance is essentially attributable to the increase in the cost of feed during the year and to the fact that the farm facilities were being expanded.

### DEPARTMENT OF EDUCATION

#### GENERAL DEPARTMENT

REPORT NO. 54-69

**Massachusetts Board of Educational Television:** Chapter 662, Acts of 1953 created and placed in the Department of Education, but not subject to its control, a board to be known as the Massachusetts Board of Educational Television. to be comprised of the members of the Board of Education and four others appointed by the Governor. The General Court has appropriated for its use \$25,000.00 for the fiscal year ending June 30, 1954. On the date of audit, the board had been organized but had not yet located suitable office space. No expenditures had been made from the appropriated funds to date.

**Registration Fees - Hyannis Summer School:** The Division of University Extension offered several courses at the Hyannis Summer School. This school, which functions under the Bridgewater State Teachers College, has established a registration fee of \$2.50. It was noted that the registration fee is being collected together with the fee for the course. This fee was not turned over to the Department of Education, but is apparently retained as income by the Bridgewater State Teachers College.

It is suggested that the Division of University Extension account for all such fees received on either of the following basis:

1. Collect only fees applicable to the Division of University Extension.  
or
2. Collect the registration fees for Bridgewater State Teachers College with the fees for the courses offered, but obtain a receipt listing in detail the registration fees turned over to the Teachers College.

**Board and Room Charges at State Teachers Colleges:** At its meeting on June 29, 1953, the Board of Education approved a schedule of board and room charges at the several Teachers Colleges. This schedule, which follows, was adopted to standardize charges at the various colleges and became effective September 1, 1953:

Student Charges

Board and room charge (yearly)	\$420.00
Board and room charge (weekly)	\$16.50
Meal charge - \$14.00	
Room charge - 2.50	\$16.50
Board and room charge (daily)	\$2.50
Room charge - \$.50	
Meal charge - 2.00 including	
a. breakfast \$.50	
b. lunch .60	
c. dinner .90	\$2.00
Special 5 meal luncheon book for students only -	\$2.50

Faculty and Transient Charges

Board and room charge (weekly)	\$17.50
Meal charge - \$14.00	
Room charge - 3.50	\$17.50
Board and room charge (daily)	\$2.50
Room charge - \$.50	
Meal charge - 2.00 including	
a. breakfast \$.50	
b. lunch .60	
c. dinner .90	\$2.00

Charges to Members of Conference Groups

Board and room charge (daily)	\$3.55
Room charge - \$1.00	
Meal charge - 2.55 including	
a. breakfast \$.75	
b. lunch .85	
c. dinner .95	\$2.55

1. There will be no refund of board and room charges for absences of less than one calendar week.
2. For absences of one calendar week or more, refund shall be made for each full calendar week of absence.
3. Refunds shall be for meal charges only.
4. Weekly refund shall be at the rate of \$12.35.

It is noted, however, that the regulations regarding refunds appear to be contradictory. In this connection, Item 3 indicates that refunds will be made only for meal charges, Item 4, however, seems to permit weekly refunds at the rate of \$12.35, which is the actual weekly charge for both board and room.

It is therefore suggested that this schedule be reviewed and possibly the regulations regarding these refunds may be clarified.

**Sale of Books:** An examination of book purchases and sales indicates that some are sold at cost or less. It is recommended that the selling prices of all books be so that none will be sold at a loss.



Accounts Receivable - Division of University Extension: Certain minor discrepancies were noted in this Accounts Receivable Control ledger. In order to maintain closer control over these accounts the following suggestions are offered:

1. The unpaid bill file and the accounts receivable ledger should be reconciled regularly by the Department.
2. A follow-up system on overdue accounts receivable should be established and accounts more than one year old should be turned over to the Attorney General for collection or disposition as is prescribed by the Comptroller's Accounting Manual.
3. A numerical control of the Audio-Visual fan-fold system should be maintained and every serial number used should be accounted for.

Loss of Income Cash: In October 1953, fees amounting to \$32.00 were reported as missing from the desk of an employee. The fees had been collected for the High School Equivalency Program and were to be transmitted to the business office for deposit. The loss was reported to the police and to date the money has not been recovered.

The system has since been changed and all cash is now being received directly through the business office of the Department.

#### STATE RACING COMMISSION

REPORT NO. 54-70

Disaster Emergency Relief Racing Agency: Chapter 499 of the Acts of 1953 established this agency to provide relief for the Central Massachusetts Area which was stricken by a tornado in June 1953. This agency has all the powers and duties of a promoter of racing meetings and is only in effect for the current year. This agency is to act as agent for and shall pay over to the Central Massachusetts Disaster Relief Committee, Inc. the "net proceeds" derived from racing meetings held under this act after deducting minimum track operating expenses. Fees and taxes ordinarily accruable to the State were also waived by Chapter 499 of the Acts of 1953 and Federal admissions taxes were waived by a ruling of the Internal Revenue Bureau but these taxes, however, will become part of the "net proceeds".

All functions normally performed at regular racing meetings by the State Racing Commission were performed in the same manner for the "emergency" meetings.

The records of the State Racing Commission indicate gross receipts of \$952,737.00 from such racing operations only. Information relative to other track income including that from concessions, sales of programs, unredeemed tickets, etc., will be reported in a separate audit of the Disaster Emergency Relief Racing Agency.

Unclaimed Pari-Mutuel Tickets: At the date of audit, the value of unpaid pari-mutuel tickets for the 1952 racing season was \$63,161.90. This amount, subject to change because of tickets being redeemed at a later date, will be payable to the Commonwealth early in 1954. Checks totaling \$57,609.60 were received from the various associations early in 1953 covering the unpaid pari-mutuel tickets for the racing year 1951.

It is understood that these unpaid tickets are under continuous audit by the commission's accountant until they are finally turned over to the Commonwealth in accordance with statute.

Agricultural Purposes Fund: This fund originates in the receipts from commissions and breakage from racing at fairs and is provided for by Chapter 390 of the Acts of 1947 as amended by Chapter 319 of the Acts of 1948.

The amount of \$125,181.63 which was received as the result of fairs held in the 1953 year has been credited to this fund.

#### DIVISION OF LIBRARY EXTENSION

REPORT NO. 54-71

Marshall Field Library Trust Fund: This fund was set up to provide for a two-year library project in twelve towns in western Massachusetts. This project is practically completed and a final report is being prepared. The equipment purchased from the trust funds has been turned over to the Division of Library Extension for the furtherance of the library program in these communities.

On June 30, 1953 the balance of the fund was \$823.52. Upon completion of the project, the balance of the fund is to be turned over to the Conway Memorial Library.

## OFFICE OF SCHOOL LUNCH PROGRAMS

REPORT NO. 54-72

**School Lunch Distribution and Salvage Fund:** In August 1953 the balance of \$53,394.99 in the Department of Public Welfare Commodity Salvage Fund was transferred to the School Lunch Distribution and Salvage Fund in the Department of Education. This transfer was effected in accordance with the provisions of Chapter 637, Acts of 1953 which designated the Department of Education as the agency responsible for surplus commodity distribution.

## OUTDOOR ADVERTISING AUTHORITY

REPORT NO. 54-74

**Pay Roll Refund Due Authority:** It was noted that an employee received sick leave pay for the period from July 9, 1953 to September 21, 1953 while recovering from injuries incurred in the course of his employment. This employee has also filed a claim with the Industrial Accident Board requesting weekly compensation for the period. This claim amounting to approximately \$260.00 will be paid to the Authority as a refund when it is received from the Industrial Accident Board by the employee.

**Employees' Sick Leave Register:** An examination of the Employees' Sick Leave Register authorized by Section 7 of Chapter 7 of the Tercentenary Edition of the General Laws indicated that sick leave charges and credits for the months of September, October and November 1953 had not been posted to it. It is urged that the Authority maintain its sick leave register on a current basis.

**Overpayments by Advertisers:** It was noted that an overpayment of \$22.00 received, applicable to renewal applications, was applied by the Authority as a payment against permits, amendments, and original applications issued to the same concern in connection with subsequent transactions. This action is contrary to the instructions in the Comptroller's Bureau accounting manual which indicates that all overpayments should be returned on a Refund of Receipts Voucher. It is therefore suggested that future transactions of this nature should be treated in accordance with those instructions.

**Renewal Permits:** The previous audit report noted that renewal permits were issued approximately six months after their effective date. As the inspection fees for these renewals are payable within ten days of the receipt of the renewal permits, it is possible that a billboard could be used for this interim period even though the permit might have been canceled prior to the payment of the required fee, with a resultant loss of income.

In this connection it was again noted that this situation still existed during the current audit period. It is understood that the Authority proposes to recommend certain changes in its present rules and regulations that will enable it to collect this fee on or before the effective date of the renewal permit.

**Renewal Inspection Fees:** It was noted that of the renewal permits issued during the 1953-54 fiscal year, renewal inspection fees totaling \$10,859.00 were still unpaid as of the date of audit. These unpaid fees represent the value of 3,699 renewal permits processed by the Authority during the month of November 1953 as follows:

3,580	@	\$3 00	\$10,740 00
119	@	1 00	119 00
<u>3,699</u>			<u>\$10,859 00</u>

All of these fees were received by the Authority on December 17, 1953.

**Permit Register:** The records maintained for the accounting of renewal permits for active billboards, signs and other advertising devices consist of memorandum card files. It is suggested that an official permit register be established in a bound book so that a permanent record will be available. This register will also quickly furnish the Authority with a verification of the potential renewal permit income applicable to each active location.

## DANVERS STATE HOSPITAL

REPORT NO. 54-75

**Maintenance Charges:** Collections on account of house, apartments and room rent for this audit period totaled \$32,130.92. The potential income for the same period



could not be determined because of the extensive renovation program presently in progress at this hospital. The following, however, indicates the manner of decrease in income from these sources during the past five fiscal years:

<u>Year</u>	<u>Room Charges</u>	<u>Meals</u>	<u>Total</u>
1950	\$34,345 18	\$28,006 20	\$62,351 38
1951	32,850 50	19,292 40	52,142 90
1952	31,285 47	19,331 80	50,617 27
1953*	24,591 46	16,654 80	41,246 26

\* 10 months.

It was noted from the housekeeper's records that certain doctors appear to be getting laundry privileges in excess of those normally allowed. While there is no apparent limit to laundry allowances, this practice naturally hampers the facilities of the institution laundry.

Attention is further directed to the fact that a physician employed by this institution is now paying for a room at the preposterous rate of \$.30 per month. It was learned that this rate was so established because he slept in the room only once each month. It would seem that consideration should have also been given to the fact that this room is exclusively reserved for him, and that he does on regular occasions avail himself of its facilities during the day.

#### WORCESTER STATE HOSPITAL

REPORT NO. 54-76

**Medical Facilities Available to Community - State Owned Laboratory Supplies and Equipment Issued to Laboratory then Turned Over to a Private Organization:** The audit reports for the past several years have included detailed comments relative to the use of a Commonwealth-owned Electroencephalograph machine by a former part-time employee of this institution, and for which it was understood a charge had been made and paid to a private organization.

The previous audit report suggested that a written agreement between the private organization presently conducting research projects at this hospital and the Department of Mental Health be negotiated, which would stipulate the terms under which the program was to be conducted, together with whatever contributions of personnel, equipment and materials were to be furnished by both parties, insofar as possible.

In this manner a determination would be possible in questions relating to this subject.

During the course of this examination the matter was again reviewed and it was learned that the following information is now available at the institution for use in the event these matters are questioned in the future:

1. A description of the current activities of the Research Service prepared by the Director of Research.
2. A report dated September 21, 1953 by the Director of Research apparently requested by the Superintendent and the Commissioner of Mental Health establishing what projects were being undertaken.
3. A Memorandum of Understanding which is apparently the by-laws of the Research Council and a statement of its functions, etc.

**Renovation of Phillips Building:** On September 21, 1953, work was begun on a renovation project in the Phillips Building which was planned to cost \$243,516.00. This project appeared to be another in a series of similar projects already completed or being worked on at this institution. On similar projects the supporting walls had been found strong enough to support new steel beams with concrete slabs which was an essential part of the renovations. The specifications prepared by the architect for the Phillips Building project apparently assumed that the supporting walls would be equal strength to those found on previous projects.

As the work progressed the supporting walls in this building were found to be shells, i. e., instead of four thicknesses of brick as found in other buildings only two thicknesses of brick with a binder every two or three feet were present. The latter walls were in poor condition and the binder had disintegrated into a powder. The Building Inspectors, Architects, Contractor, Department of Mental Health officials and all others concerned agreed that it was obvious that new supporting pillars would have to be installed, which would require expensive alterations in the specifications of the project.

The question of whether the contractor involved would be awarded an extra of more than \$125,000.00 to properly complete the work, or whether to pay him an amount equal to the work already completed and new bids solicited covering new specifications was considered. In the meantime other available work was continued from September 1953 until February 1954, at which time it became apparent that this decision could be postponed no longer.

It is understood that the matter is now in the hands of the Attorney-General and in the meantime work on the project has been suspended.

**Cash on Hand Representing Key Deposits not Properly Accounted For:** On date of audit there was cash totaling \$33.00 on hand in the office of the Institution Treasurer, representing deposits made by various employees who had been furnished sets of keys required in the performance of their duties.

The only record available of the transactions pertaining to this activity was in memorandum form in which was entered the names of the employees together with a notation of refunds when the keys were returned.

In this connection it was noted that there were 116 names open on this book, indicating that there had been no refunds of key deposits made to them. As the fee for keys is \$1.00, it is of course obvious that the cash on hand would be insufficient if the refunds were found necessary at one time.

The institution treasurer indicated that this record had not been currently maintained, and that many of the employees whose names appear received refunds but no corresponding entries were made.

It is therefore recommended that this matter be reviewed and competent records installed so that this activity may be in reconciliation at all times.

**Employees Handling Cash Not Bonded:** It was noted that a junior clerk in the Treasurer's office who handles transactions in the Patients' Fund and an institution porter employed in the Canteen were not bonded. The latter employee, actually performs the duties of a recreation room caretaker. Two others so employed in the Canteen are bonded.

This matter was called to the attention of the proper officials and it was understood that steps will be initiated to bond these employees.

**Checks Long Outstanding Not Canceled:** It was noted that there were several checks in the pay roll bank account which had been outstanding for a period of three months or more. It is recommended that these checks be canceled in accordance with instructions contained in the Comptroller's Bureau Accounting Manual for such items.

An outstanding check dated in March 1952 was also noted in the Escrow Retirement Fund bank account. This check should also be canceled and handled in the same manner as outlined in the preceding paragraph.

**Variances Between Quarters Register and Pay Roll Deductions For Room Rent:** In checking the amounts authorized to be deducted from employees' salaries as indicated on the quarters register to the pay rolls two instances were noted where the amounts on the pay roll were less than the amounts indicated on the quarters register. In this connection one employee's rate as appearing on the quarters register was \$1.76 per week whereas only \$1.32 was deducted from his salary on the pay roll. This variance ran weekly from December 2, 1952 to January 9, 1954, when it was called to the attention of the Institution Treasurer after it was noted during the course of this audit.

The other instance developed for only the month of September 1953 and comparable amounts were indicated.

It is understood that the proper adjustments will be made on subsequent pay rolls.

**Accounts Receivable Inactive Over One Year to be Turned Over to the Attorney-General:** In aging the outstanding active accounts receivable on the date of audit one account was noted in the amount of \$27.02 captioned "Maintenance 1949". This amount represented the unpaid balance of a 1949 charge on which payments had been spasmodically received until May 23, 1952.

As there has been no activity in this account for more than a year and a half it is recommended that it be referred to the Attorney-General for disposition.

**Check Sent to Department of Mental Health Not Entered or Cashed:** It was noted that a check in the amount of \$3,216.46 representing funds of certain deceased patients was sent to the Department of Mental Health as directed by its Second Assistant Commissioner in a letter dated August 11, 1953.



On January 19, 1954, while this audit was in progress, this check was still in the files of the Department of Mental Health where it had apparently been mislaid. It is recommended that this check be processed immediately.

**Patients' Valuables Not Disposed Of:** Section 39B of Chapter 123 of the Tercentenary Edition of the General Laws, as amended, reads as follows:

"Property, known as 'Patients' Valuables', belonging to, or deposited for the benefit of, former patients of any state hospital, or former patients under the supervision of the department, which shall have remained unclaimed for more than one year, shall be disposed of as hereinafter provided, but only if all known next of kin of the former patient shall have been notified in writing by said superintendent or by the department, as the case may be. Such disposition shall be made by a special board consisting, in the case of a former patient of a state hospital, of the superintendent of such hospital and a representative of the department designated by it, or, in the case of a former patient under the supervision of the department, of one or more representatives of the department designated by it. The Board shall ascertain whether the property has any sale value and, if so, shall solicit from at least three reputable dealers in like property offers for the purchase thereof, and shall sell the same to the dealer offering the highest price. The proceeds of such sale shall be added to the funds deposited by the superintendent of the hospital or by the commissioner, as the case may be, known as 'Patients' Funds' and shall be disposed of as provided in section thirty-nine A. The board may dispose of such of said property as, in its opinion, has no sale value, or any of said property for which no offer, solicited as aforesaid, has been received, in such manner as it may deem proper. A complete record of each transaction hereunder shall be made and signed by all members of the board and filed with the other records at the hospital or at the office of the department relating to the former patient whose property shall have been disposed of as aforesaid."

In this connection it was noted that this law has not been complied with since May 3, 1938 when the last previous disposal of such property was made. At that time the sale of unclaimed property of twenty-one patients yielded \$204.22.

This matter was reviewed and more than one thousand individual envelopes containing property of deceased and/or discharged patients were noted in a vault at the institution.

It is recommended that the Superintendent of this institution take the necessary steps to dispose of this property in accordance with the existing statutes.

**Underpayment of \$100.00 in Industrial Accident Case:** In connection with a verification of payments to employees receiving compensation under Industrial Accident laws, it was noted that during this audit period one employee received payments of \$2,423.08 and \$1,937.98 from this institution, as well as weekly benefits paid by the Department of Industrial Accidents. These payments represented an accumulation of wages during the fiscal years from 1948 to 1953, inclusive. In this connection work sheets used by the institution treasurer's office were reviewed at the time of verification of agreements, leave registers, pay rolls, etc., and it was noted that due to a clerical error in the compilation of the amount due this employee for the 1951, 1952 and 1953 fiscal years, the total of the second payment should have been \$2,037.98 instead of \$1,937.98.

This matter was called to the attention of the institution treasurer and it was understood that this underpayment will be adjusted when the next payment in the case is made.

#### BOSTON PSYCHOPATHIC HOSPITAL

REPORT NO. 54-77

**Accounts Receivable - Board of Private Patients:** It was noted that on August 11, 1953, 28 accounts totaling \$1,900.02 which represented Accounts Receivable - Board of Private Patients, were transferred to the Department of Mental Health and were closed on this institution's records. It was further noted that 2 such additional accounts totaling \$343.00 were charged off as uncollectible during the current audit period.

It was also noted that on date of audit the accounts receivable - Board of Private Patients indicated a credit balance. This was occasioned by the system where the Department of Mental Health does billing without allowing for proper journal entries to be made adjusting credit balances.

**Accounts Receivable - Southard Clinic Fees:** As a result of comments in previous audit reports, the Department of Mental Health issued a directive effective March 12, 1953 providing for a new system of handling and recording fees received from this clinic.

It was noted in this connection that the acting cashier of the clinic was bonded in the amount of \$1,000.00.

**Maintenance Charges for Rental of Rooms:** From all information available, it was determined to be impossible to properly establish the potential income from the rental of rooms to employees at this institution. A card file maintained by the treasurer was helpful in this respect but did not include sufficient information to completely identify this income. Some of these cards did not indicate when the occupancy began or ended. In one particular instance six months had elapsed before any charges were made.

It was also noted that no authorization slips are on file signed by the employees giving the institution authority to deduct from the pay roll as is required by the Commission on Administration and Finance.

It is suggested in this regard that the housekeeper keep the "Quarters Register" on rental of rooms and that the necessary authorization slips be signed by those employees occupying rooms.

**Sale of Meal Tickets:** The cash book indicates that \$7,104.30 was received from the sale of meal tickets to employees during the audit period. The records also noted that the treasurer issued meal tickets with a face value of \$8,085.00 to the Nursing Office for free distribution to student nurses for which the Nursing Office made no accounting. It was learned that the secretary of the Nursing Office turned these tickets over to the dietitian, who kept no record of their distribution. The dietitian, however, is advised by the Nursing Office as to the number of student nurses who are entitled to free meals.

It is suggested that the treasurer or the Nursing Office keep a record showing the disposition of these meal tickets by serial numbers together with the signature of the respective student nurses.

It is further suggested that dining room attendants collect meal tickets from all individuals who get meals.

**Materials and Supplies:** The test inventory of Materials and Supplies taken in connection with this audit indicated shortages of \$51.66 and overages of \$104.17 or a net overage of \$52.51. Stock ledger adjustments made during the audit period totaled \$1,305.99 and of this amount \$1,197.75 represented overages and \$108.24 represented shortages. Adjustments were apparently necessary because of the reasons usually noted, such as, clerical errors, spoilage, shrinkage, etc.

It was further noted that certain accounts show book balances even though no items are actually on hand. This was probably due to the practice of pricing issues at a unit cost other than the average cost indicated on the records. It is suggested that proper adjusting journal entries be made to close these accounts.

**Canteen Variance:** A comparison of the physical inventory with the book inventory showed the physical inventory to be \$365.16 less than the computed book inventory and represents approximately 6% of sales. This matter was discussed with the personnel, who were responsible for the operation of the canteen, who were of the opinion that there were too many people operating the canteen.

The canteen is open one hour in the afternoon and one hour in the evening seven days a week. In this connection it was noted that the physical inventory taken by personnel of the institution on June 30, 1953 was \$290.00 short.

It is suggested that, possibly, if physical inventories were taken more frequently these variances might be reduced to a minimum.

**Patients' Funds:** It was noted that 29 checks issued on this account have been outstanding for more than one year. It is suggested that payment on these checks be stopped and their proceeds returned to Patients' Funds.

It was further noted that the funds of 2 patients, who were transferred to other institutions, were still on hand. It is suggested that these funds be transferred as soon as possible.

**Bonded Employees:** It was noted that the assistant superintendent, who has authority to sign checks on two Trust Fund accounts, is not bonded. It is suggested that steps in this direction be considered.



## COMMISSIONER OF VETERANS' SERVICES

REPORT NO. 54-80

**Spanish War Reimbursement Fund:** On the date of audit the balance of cash in the principal account was \$418.50, and in the income account, \$1,339.96 or a total of \$1,758.46. In addition there is \$80.00 cash on hand which represents the unexpended portion of the 1954 advance of \$100.00. A review of expenditures for the past 13 years indicates that in only one year did the expenses exceed \$300.00 which has been less than the income received each year for investments.

**Reimbursement to Cities and Towns for Veterans' Benefits:** On June 30, 1953 there was owing to cities and towns the amount of \$1,796,898.97 for the months of January 1953 through June 30, 1953. This latter amount was reimbursed from the 1954 fiscal year's appropriation in the months of July and August 1953.

**Reimbursement to Cities and Towns for World War II Allowances:** On June 30, 1953 there was \$19,470.33 owing to the various cities and towns for the six months ending June 30, 1953. This amount was reimbursed in July and August 1953 from the 1954 fiscal year funds.

## TAUNTON STATE HOSPITAL

REPORT NO. 54-81

**Farm Operations:** The records indicated a loss from farm activities for the 1952 farm year at \$17,643.32. This amount compared with a loss of only \$1,709.12 for the 1951 farm year.

It was understood that this variance is essentially attributable to the increase in the cost of animal feed during the year.

**Patients' Accounts:** It was noted that several checks which had been drawn on the Patients' bank account had been outstanding for periods from one to three years.

It is recommended that an effort be made to dispose of these checks in accordance with existing directives.

**Income from Vending Machines:** Attention is directed to the fact that the canteen income included \$652.28 received as commissions on sales from vending machines.

In this connection it was noted that representatives of the vending machine concessionaires make collections and subsequently checks for commissions are mailed to the institution. Because of this method, no verification of collections and commissions is possible.

It is, therefore, recommended that this procedure be reviewed and a more adequate system of income control from vending machines be substituted.

**Maria J. Haglind Trust Fund:** From information available, it appears that the Registrar of Probate for Plymouth County does not recognize the present trustees of this institution for purposes of administering this trust fund. This is apparently because the original trust indenture referred to the then trustees specifically by name. Because of this, it is contended that the former hospital trustees must resign as the trustees of this fund, and the new trustees must be accordingly qualified.

In this connection, it was noted that securities purchased from this fund were registered in the names of three former trustees of this hospital whose terms as such had expired, and the income from these securities is received in the names of these former trustees for deposit to the fund.

It was noted that the subscription rights were issued during the audit period in connection with securities owned. These rights had a value on issue, but because they were not sold within a specified time limit, nothing was realized from them.

It is, therefore, suggested that the Attorney General be consulted relative to the possibility of instituting legal processes so that the current properly qualified trustees of this institution may be permitted to administer this fund.

## DEPARTMENT OF PUBLIC WORKS

## GENERAL DEPARTMENT

REPORT NO. 54-82

Highways Division

**Inventories:** An integral part of the accounting installation several years ago by the

Public Administration Service was a tabulating machine inventory control. Inventories are maintained in the 40 storehouses located throughout the Commonwealth and the accounting system is designed to provide a control in the bookkeeping machine room for the materials and supplies in each of them.

Test inventories were taken in connection with this examination at the following storerooms:

Storeroom No. 1 - D Street, South Boston  
 Storeroom No. 2 - Traffic Shop, Roxbury  
 Storeroom No. 55 - Beverly  
 Storeroom No. 65 - Taunton  
 Storeroom No. 75 - Middleboro

Summaries of the results of these test inventories follow:

Test of Stores Inventories

	<u>"D" Street South Boston</u>	<u>Traffic Shop Roxbury</u>	<u>Beverly</u>	<u>Taunton</u>	<u>Middleboro</u>
Value per Book Records	\$52,934 99	\$28,854 11	\$12,116 40	\$12,571 27	\$6,534 57
Add:					
Overages	1,290 95	1,278 31	615 78	458 70	548 71
	<u>\$54,225 94</u>	<u>\$30,132 42</u>	<u>\$12,732 18</u>	<u>\$13,029 97</u>	<u>\$7,083 28</u>
Less:					
Shortages	2,942 67	3,350 07	501 92	205 42	374 55
Value per Physical Inventory	<u>\$51,283 27</u>	<u>\$26,782 35</u>	<u>\$12,230 26</u>	<u>\$12,824 55</u>	<u>\$6,708 73</u>
Number of Items Inventoried	185	153	103	72	98
Number of Items Over	34	24	16	13	12
Number of Items Short	42	55	27	22	16
Total Number of Items in the Storeroom	4,155	1,508	555	936	678
Total Value	\$324,996 46	\$334,364 62	\$47,738 42	\$194,475 76	\$45,702 54

	<u>Date of Inventory</u>	<u>Date Book Records Received</u>
"D" Street, South Boston	Feb. 11, 1954	Mar. 8, 1954
Traffic Shop, Roxbury	Feb. 11, 1954	Mar. 8, 1954
Beverly	Feb. 1, 1954	Feb. 24, 1954
Taunton	Feb. 1, 1954	Feb. 24, 1954
Middleboro	Feb. 1, 1954	Feb. 24, 1954

Previous audit reports have commented that no control account is being carried in the general ledger for materials and supplies kept in the storerooms maintained in the 40 localities. The absence of such an account defeats the main purpose of a stores inventories system, and minimizes the value of the information obtained from its operation. It is therefore again suggested that such a control account be installed.

Attention is called to the fact that the Department records as of December 31, 1953 indicated a total value of \$2,026,956.71 for the 9,062 items carried in the inventories of all the 40 storerooms maintained by this Department.

As an indication of the lack of proper control of the inventory records as they are presently constituted, it was noted that items of substantial value were actually on hand at the Wellesley warehouse yet the records indicated they were purportedly on hand at the D Street warehouse in South Boston. In this connection the following copy of a letter is shown:



COPY

## THE COMMONWEALTH OF MASSACHUSETTS

INTER-OFFICE CORRESPONDENCE

DEPARTMENT OF PUBLIC WORKS

From: Maintenance Office  
Attention of: Stores Section  
Subject: Materials Stored at Wellesley

March 11, 1954

On hand at the new Wellesley Depot are the following materials that have been received on reports at the D Street Warehouse and are carried on their inventory:

8,000	Gals.	of Gasoline
4,000	"	" Diesel Oil
1,800	"	" Kerosene
16,000	"	" #5 Fuel Oil

This material was delivered as soon as the tanks were placed in the ground, then capped and covered. The tanks will remain covered until the warehouse from D Street, South Boston moves to the Depot.

This was done to allow the tanks to settle into position.

Yours truly

Engineer in Charge

Accounts Receivable: The active accounts receivable balance on January 4, 1954 totaled \$732,066.04 of which \$703,089.84 was due from the Federal Government. This account also included accounts aggregating \$1,432.00 which represent alternative charges in cases where reimbursement is sought for damages to highways, bridges and guard rails. When either party pays the amount billed, the alternative charge is canceled.

The suspense accounts receivable balance on the same date totaled \$68,289.34 and supposedly represents those accounts turned over to the Attorney General's department for collection, etc. Included in this amount is the sum of \$6,317.89 representing alternative charges.

The suspense accounts receivable were checked with the records of the Attorney General's department and it was noted that 40 of the accounts could not be located in that agency.

It was noted that there had been received from the Attorney General in September 1953, authorizations for the cancellation of nine accounts which were among the 40 not located. These authorizations, however, had been filed in error before the necessary book entries were made. It is understood that the necessary entries for these and one alternate account, totaling \$288.64, will be effected on March 31, 1954.

It was further noted that a letter dated March 15, 1954 was received from the Attorney General indicating a settlement of an account for \$41.00 and authorized the cancellation of the balance of the original charge which had been \$82.00.

A list of the remaining 29 accounts was given the Department of Public Works who resubmitted them to the Attorney General under date of March 25, 1954. The active accounts receivable includes one old account totaling \$3,077.93 due from the Outdoor Advertising Authority since 1946 and 1947. It would appear that some disposition could be made of this account.

It was also noted that credit balances totaling \$354.00 are included with the active accounts receivable as of the date of audit. The balances generally represent part payments of accounts which are listed with the suspense accounts receivable.

It is again suggested that the accounts be properly credited.

It is further recommended that the Business Agent obtain advice from the Attorney General relative to the disposition of certain of the accounts carried in the suspense accounts receivable trial balance. Several of these accounts are legally outlawed as to time for collection, and it also appears doubtful that the major part of the total of \$68,289.34 can ever be collected.

Miscellaneous Income: During the audit period \$2,334.71 was credited to this account as follows:

Jury Duty - Refunds	\$1,191 84
Witness Fees - Refunds	226 30
Calculating Machine and Adding Machine	
Stolen - Paid for by the Contractor	698 12
Berger Transit Stolen - Paid for by the Insurance Company	218 45
	<u>\$2,334 71</u>

**Missing Certified Checks:** It was noted that four automobiles formerly owned by this department were sold by the State Purchasing Agent after having been declared surplus in a letter from this department. These automobiles which were two 1948 and two 1952 Ford coaches were sold to the two highest bidders of record - a total of \$2,043.00, \$418.00 for the older models and \$1,625.00 for the later models, was received.

Certified checks were sent to the Department by the State Purchasing Agent, and were forwarded to the office of the Business Agent. They were returned to the Deputy Commissioner of this Department on December 28, 1953 pending approval by the Commissioners of the transaction at a Board meeting. These checks were found to be on hand on the initial date of this audit in the assistant chief engineer's section.

This transaction was subsequently approved by a vote of the Board at its meeting February 16, 1954. However, on that date it was understood that the certified checks which had been available could not be located and had apparently been mislaid. Accordingly no entry for this transaction had been made in the cash book of the Department to March 25, 1954.

It is suggested that without question better control should be exercised in the handling of State cash. If the checks are not located within a reasonable time, it is suggested that steps be taken to obtain duplicate items.

**Bid and Specification Deposits - Cash on Hand:** A personal check for \$20.00 was included with this cash on hand on the date of audit. It is suggested that the cashing of such checks from this account be discontinued.

**Standard Specifications for Highways and Bridges:** It was noted that at a meeting of the Board which was held on October 27, 1953 it was voted that a charge of \$3.00 per volume be made when such specifications are sold to private individuals. A previous charge of \$2.00 per volume had been made for such items.

**Overtime:** A recapitulation of overtime reports made to the State Personnel Division for the months of January 1953 through December 1953 follows:

<u>Section</u>	<u>Classified</u>	<u>Labor</u>	<u>Total</u>
Secretary	\$ 3,881 35	-	\$ 3,881 35
Personnel	5,996 81	-	5,996 81
Business Agent	73,523 15	-	73,523 15
Chief Engineer	5,110 70	-	5,110 70
Blueprint	10,489 84	-	10,489 84
Survey	79,254 93	-	79,254 93
Projects	64,426 65	-	64,426 65
Bridge	20,819 43	-	20,819 43
Construction	57,031 71	-	57,031 71
Maintenance	6,059 92	\$ 346 73	6,406 65
Traffic - Highway Plan	23,874 00	-	23,874 00
Laboratory	14,677 94	-	14,677 94
Right of Way	6,806 95	-	6,806 95
Districts 1 - 7	325,548 33	131,502 00	457,050 33
Waterways	13,476 68	512 37	13,989 05
Garage	11,150 84	27,863 74	39,014 58
Traffic Shop	6,713 64	6,385 91	13,099 55
Districts 1 - 7 (Snow Removal)	109,762 99	290,443 14	400,206 13
Commissioners	785 03	-	785 03
Specifications	5,028 55	-	5,028 55
Building Maintenance	1,457 09	4,987 03	6,444 12
Publicity	856 03	-	856 03



Budgets	\$ 160 87	-	\$ 160 87
	<u>\$846,893 43</u>	<u>\$462,040 92</u>	<u>\$1,308,934 35</u>

**Pay Rolls:** The test check of pay rolls included references to endorsements by various employees on canceled checks and also a comparison of the signatures with employees' signatures appearing on Withholding Tax cards. Several of these checks were found to have been cashed without endorsement and many of the Withholding Tax cards were found to be lacking the signature of the respective employees.

As this Department pays for a check cashing service, it would appear that the proper procedure would certainly include scrutiny of all checks for proper endorsements. It is further suggested that the required signatures be obtained on all Withholding Tax cards.

**Classified Pay Roll:** A tabulation of classified pay roll for the week ending January 16, 1954 received from the pay roll office of the Department, indicated a total of 2,365 employees of which 1,403 were of a permanent status, 920 temporary and 42 emergency.

**Advances to Employees:** Verification notices were mailed to those individuals who appeared in the records as having balances of advance money for travel and other expenses. In this connection, no replies were received from 19 persons with a total of \$1,818.01 outstanding as of the date of audit.

On June 30, 1953 there was a total of \$4,835.75 of outstanding advance money of which \$2,270.46 represented weekly vacation pay roll advances and \$2,565.29 represented unpaid travel advances. These amounts were finally cleared, with the exception of \$25.86 due from a former employee, although many of the advances were not returned until long after the end of the fiscal year. It is suggested that some arrangement be made so that advance monies will be cleared at the end of the fiscal year.

**Land Damage Cases and Allotments:** The following statement represents a comparative summary of the transactions and allotments in this connection for the five years ended June 30, 1953 as shown by the records in the Right of Way Section of this Department:

<u>Fiscal Year Ended</u>	<u>Number of Projects</u>	<u>Cities or Towns</u>	<u>Number of Land Damage Cases</u>	<u>Allotments</u>
June 30, 1949	33	27	258	\$ 2,643,785 00
June 30, 1950	79	58	1,015	8,827,070 00
June 30, 1951	70	60	1,249	14,952,210 00
June 30, 1952	65	64	887	5,293,509 00
June 30, 1953	67	48	943	2,975,565 00

The following statement represents the amounts, etc., of land damage cases settled during the four years ended December 31, 1953, as shown by the records in the Right of Way Section of this Department:

<u>Fiscal Year Ended</u>	<u>Number of Cases Settled</u>	<u>Amount Settled</u>	<u>Right of Way Appraisal Total</u>
December 31, 1950	783	\$2,814,451 93	\$2,903,807 50
December 31, 1951	817	3,061,668 13	2,790,412 10
December 31, 1952	607	3,630,951 41	3,279,492 00
December 31, 1953	829	8,041,159 00	6,863,930 00

**Land Takings:** When the Department of Public Works decides to take land by Right of Eminent Domain a so-called "layout" is prepared which indicates those parcels of land which are to be taken together with the respective owners. Subsequently a representative of the Department of Public Works negotiates with the owners of the property relative to making a settlement. When an agreement is reached, an Offer of Settlement is signed by the owner, which is then given to a real estate conveyancer who is under contract to this Department for purposes of title examination, etc. At least two members of the Board of Commissioners must also approve the transaction before it is submitted to the Office of the Attorney General for approval. In the event that no agreement appears possible, all data relative to the case is immediately submitted to the Attorney

General for whatever legal action is warranted.

**Real Estate Review Board:** This board was authorized by Statute 1952, Chapter 556, Section 6, Paragraph 2, which paragraph reads as follows:

"There is hereby created within the department of public works a real estate review board consisting of five members, to be appointed by the commissioner from members of the Boston Real Estate Board, from resident Massachusetts members of the American Institute of Real Estate Appraisers, from members of the Massachusetts Board of Real Estate Appraisers or from members of the Massachusetts Real Estate Association. All vacancies in said board shall be filled by said commissioner from a list of five names submitted by the Boston Real Estate Board and five names submitted by the Massachusetts Real Estate Association. Said department shall fix the compensation of the members of said real estate review board."

The minutes of the board meeting of November 4, 1952 states that the Commissioner appointed to this board the following five members:

Arthur P. Wilcox  
Roy E. Connor  
Alfred H. Dolben  
Carleton Hunneman  
H. Kingsley Durant

It was noted that six contracts have been made with the foregoing persons.

The first contract - No. 4923 - dated August 3, 1951 with said persons as joint venturers to examine and review appraisals of property, contract to be completed October 31, 1951. However, on October 2, 1951 by vote of the Commissioners it was extended to June 30, 1952. This contract provided for payment to each of the joint venturers of \$125.00 a day for each day worked and if only part of a day was worked payment was to be prorated. Under this contract a total of \$5,437.50 was paid to the joint venturers.

The second contract - No. 5138 - dated July 1, 1952 to be completed December 31, 1952 contained the same provisions and rate of payment as the first contract. Under this contract a total of \$5,437.50 was paid to the joint venturers.

Two contracts were also made covering the period from January 1, 1953 to June 30, 1953 containing the same provisions and rate of payment. One of these - No. 5298 - related to work in connection with General Laws, Chapter 79 and the other - No. 5299 - related to work authorized by Statute 1952, Chapter 566.

It was noted that two contracts had been awarded to this group during the audit period. Contract No. 5435 was awarded August 5, 1953 for the period from July 1, 1953 to December 31, 1953, and contract No. 5576 was awarded for the period from January 1, 1954 to June 30, 1954. The same daily rate was indicated in both contracts.

**First Bond Issue of \$100,000,000.00 for an Accelerated Highway Program:** Chapter 306 of the Acts of 1949 which became effective May 18, 1949, provided for a bond issue of \$100,000,000.00. Of this amount, \$92,000,000.00 was made available to the Department of Public Works and \$8,000,000.00 was made available to the Metropolitan District Commission.

The amount made available for this Department was allocated by said Chapter 306, as follows:

Section 5. \$37,000,000.00 for projects to be constructed in the area set forth in the "Master Highway Plan for the Boston Metropolitan Area".

Section 6. \$53,000,000.00 for projects to be constructed in the area set forth in "The Report on Massachusetts State Highway Needs, Exclusive of Metropolitan Boston", established and defined in Exhibit A of House Document No. 1767 (1948) and for traffic studies in the urban areas and for studies to determine the feasibility of revenue producing facilities. Not less than \$5,000,000.00 of the total sum is to be expended in each of the four following districts:

- Area 1. West of the Connecticut River
- Area 2. Between the Connecticut River and easterly boundary of Worcester County



Area 3. Middlesex, Essex, and Norfolk County, including  
Route 128

Area 4. Bristol, Plymouth, Barnstable, Dukes and Nantucket  
Counties

Section 7. \$2,000,000.00 to be expended for traffic safety devices on State highways and on roads constructed under the provisions of Section 34 of Chapter 90 of the General Laws.

Section 12. This section provides that detailed progress reports shall be filed with the Governor and with the clerk of the House of Representatives on December 31, 1949, June 30, 1950 and December 31, 1950, and a final report on or before July 31, 1951 relative to all projects undertaken under the provisions of this act.

Section 13. This section provides that all contracts for projects authorized by this act shall be entered into not later than June 30, 1951.

In this connection it was noted that to the date of this audit, \$100,000,000.00 of the bonds authorized under this statute had been issued.

The following is a summary of expenditures and encumbrances incurred under this act to December 31, 1953:

	Expenditures to Dec. 31, 1953	Encumbrances Outstanding Dec. 31, 1953	Total to Dec. 31, 1953
Metropolitan Area	\$29,277,480 53	\$7,197,066 83	\$36,474,547 36
Outside Metropolitan Area	50,625,854 19	1,989,249 47	52,615,103 66
Traffic Safety	1,984,009 21	1,918 71	1,985,927 92
	<u>\$81,887,343 93</u>	<u>\$9,188,235 01</u>	<u>\$91,075,578 94</u>

Second Bond Issue of \$100,000,000.00 for an Accelerated Highway Program: Chapter 685 of the Acts of 1950 which became effective July 31, 1950 provided for a second bond issue of \$100,000,000.00. Of this amount, \$92,000,000.00 was again available to the Department of Public Works and \$8,000,000.00 was available to the Metropolitan District Commission.

The amount made available to the Department of Public Works was allocated by the aforementioned statute as follows:

Section 4. \$37,000,000.00 for projects to be constructed in the area set forth in the "Master Highway Plan for the Boston Metropolitan Area".

Section 5. \$54,000,000.00 for projects to be constructed in the area set forth in "The Report on Massachusetts State Highway Needs, Exclusive of Metropolitan Boston", established and defined in Exhibit A of House Document No. 1767 (1948) and for traffic studies in urban areas. Not less than \$8,000,000.00 of the total sum is to be expended in each of the four following areas:

Area 1. West of the Connecticut River

Area 2. Between the Connecticut River and easterly boundary of  
Worcester County

Area 3. Essex, Middlesex and Norfolk Counties, including  
Route 128

Area 4. Bristol, Plymouth, Barnstable, Dukes and Nantucket  
Counties

Also from the total amount, the Department of Public Works may expend from the total amount \$54,000,000.00 an amount not to exceed \$1,000,000.00 in areas outside Metropolitan Boston for resurfacing existing highways.

Section 6. \$1,000,000.00 to be expended for traffic safety devices on State highways and roads constructed under the provisions of Section 34 of Chapter 90 of the General Laws.

Section 11. This section provides that detailed progress reports shall be filed with the Governor and the Clerk of the House of Representatives on December 31, 1950, June 30, 1951 and December 31, 1951, and a final report on or before July 31, 1952 relative to all projects undertaken under the provisions of this act.

Section 12. This section provides that all contracts for projects authorized by this act shall be entered into not later than June 30, 1952.

In this connection it was noted that \$70,250,000.00 of the bonds authorized under this statute had been issued to the date of audit.

The following is a summary of the expenditures and encumbrances incurred under this law to December 31, 1953:

	Expenditures to Dec. 31, 1953	Encumbrances Outstanding Dec. 31, 1953	Total to Dec. 31, 1953
Outside Metropolitan Area	\$47,502,404 66	\$ 4,681,343 01	\$52,183,747 67
Outside Metropolitan Area, Resurfacing	885,434 50	4,006 23	889,440 73
	<u>\$48,387,839 16</u>	<u>\$ 4,685,349 24</u>	<u>\$53,073,188 40</u>
Metropolitan Area	10,639,038 76	22,610,478 06	33,249,516 82
Traffic Safety Devices	884,815 63	2,998 97	887,814 60
	<u>\$59,911,693 55</u>	<u>\$27,298,826 27</u>	<u>\$87,210,519 82</u>

Third Bond Issue for an Accelerated Highway Program: Chapter 556 of the Acts of 1952 effective so far as Sections 1 to 11 inclusive, on July 2, 1952 and Sections 12, 13, 14, and 14A effective on January 1, 1953 provided for a bond issue of \$200,000,000.00. Of this amount, \$184,000,000.00 was available for this Department and \$16,000,000.00 was available to the Metropolitan District Commission.

The amount made available to this Department was allocated by said Chapter 556 as follows:

Section 4. \$74,000,000.00 for projects to be constructed in the area set forth in the "Master Highway Plan for the Boston Metropolitan Area" as established and defined in Exhibit B of House Document No. 1767 of the year 1948.

Section 5. \$110,000,000.00 for projects to be constructed in the area set forth in "The Report on Massachusetts State Highway Needs, Exclusive of Metropolitan Boston", established and defined in Exhibit A of House Document No. 1767 of the year 1948. Said Section 5 allocates the expenditures as follows:

- Area 1. West of the Connecticut River, not less than \$12,000,000.00
- Area 2. Between the Connecticut River and easterly boundary of Worcester County, not less than \$12,000,000.00
- Area 3. Essex, Middlesex and Norfolk Counties, including Route 128, not less than \$12,000,000.00
- Area 4. Bristol, Plymouth, Barnstable, Dukes and Nantucket Counties, not less than \$12,000,000.00

Section 10. This section provides that detailed progress report shall be filed with the Governor and the Clerk of the House of Representatives on December 31, 1953, December 31, 1954, December 31, 1955 and a final report on or before December 31, 1956 relative to all projects undertaken under the provisions of this act.

Section 11. This section provides that all contracts for projects authorized by this act shall be entered into not later than December 31, 1956.

As of the date of audit none of the bonds authorized under this statute had been issued.

A summary of the expenditures and encumbrances made and incurred under this act to December 31, 1953 follows:

	Expenditures to Dec. 31, 1953	Encumbrances Outstanding Dec. 31, 1953	Total to Dec. 31, 1953
Metropolitan Area	\$ 1,628,792 83	\$ 1,970,764 27	\$ 3,599,557 10
Outside Metropolitan Area	15,810,038 64	39,501,466 55	55,311,505 19
	<u>\$17,438,831 47</u>	<u>\$41,472,230 82</u>	<u>\$58,911,062 29</u>

Sale of Land and Property: Previous audit reports have included comments relating to a parcel of land on Nashua Street, Boston, which was sold on May 20, 1941 for \$100,000.00. The terms of the agreement called for a down payment of \$6,500.00 and the balance to be paid in eleven equal payments of \$8,500.00 each with interest at 4%. The down payment of \$6,500.00 was accordingly received but no further payments of principal or interest have been received. A supplemental agreement was reached by both parties on November 16, 1943 which was approved by the Council on December 27,



1944. This later agreement stated in part:

" . . . That the further payments on the purchase price of said premises as required by the terms of said agreement of May 20, 1941 shall be suspended for the duration of the unlimited National Emergency as declared by the President of the United States on May 27, 1941 . . . "

At the Commission meeting which was held on April 20, 1948, this matter of the agreement was discussed, and it was voted to refer the entire matter to the Director of the Division of Waterways for study and a report.

A report on this matter was presented at a meeting of the Commission on November 23, 1948, in which it was stated in part as follows:

" . . . On May 20, 1941 the Department agreed to sell a part of the Nashua Street parking space to . . . for \$100,000.00; \$6,500.00 to be paid on delivery of the agreement and the balance in eleven equal annual installments starting with May 1, 1942, plus interest at 4 per cent. He states that on November 16, 1943 there was a supplementary agreement which provided that further payments beyond the \$6,500.00 down payment were suspended for the 'duration of the National Emergency as declared by the President of the United States on May 27, 1941', and the 1941 agreement was suspended until that date, but provided 'that if it appears to the Department that the necessary materials for the construction of the building are available said department shall give notice to said . . . that on a date named in said notice said agreement of May 20, 1941 shall be in effect'."

It was thereupon voted by the Commissioners as follows:

"That . . . be notified that the agreement of May 20, 1941, shall be in effect on January 2, 1949 under the above clause of the supplementary agreement of November 16, 1943, as confirmed in the supplementary agreement of October 11, 1944, subject to the readjustment of the area to be sold in the agreements of October 11, 1944 and June 5, 1945."

In accordance with the foregoing directive, the following letter was sent to the purchaser by the Secretary of the Commission:

November 23, 1948

Dear Sir:

This is to inform you that the agreement of May 20, 1941 between you and this Department, on the matter of the purchase of a portion of the Nashua Street parking space, shall be in effect on January 2, 1949, under the clause of the supplementary agreement of November 16, 1943 - 'that if it appears to the Department that the necessary materials for the construction of the building are available said Department shall give notice to said . . . that on a date named in said notice said agreement of May 20, 1941 shall be in effect . . . ' as confirmed in the supplementary agreement of October 11, 1944, subject to the readjustment of the area to be sold in the agreements of October 11, 1944 and June 5, 1945. In the opinion of this Department materials for the construction of the building are now available.

Very truly yours,

Reg. Mail

Secretary

Despite the foregoing, no further payments have been received to date of audit. In this connection it was noted that the Department's file on this case was transmitted to the Attorney General on January 29, 1951 and was returned on December 10, 1952 without comment. It was understood that the Department is now in the process of reviewing the whole matter.

It was noted in this connection that these recommendations, in part, had been

presented to the Board on June 2, 1953 as follows:

"On May 15, 1953 notice of default was mailed to each of the parties in interest appearing on the records of the Registry of Deeds, D. F. M., M. A. R., and F. E. H., by registered mail, return receipt requested, and all three receipts, dated May 19, 1953, are now in the Department files. It was recommended that, inasmuch as more than ten days had elapsed after receipt of the notice of default, and no payment had been received, that the Department, acting for the Commonwealth, elect to treat the agreement dated May 20, 1941 between the Department and D. F. M. as void and of no further effect, and that the payment of \$6,500.00 be retained by the Commonwealth as liquidated damages for the breach of the agreement, and that notice of the Board's action be sent to each of the three parties in interest."

The recommendation was approved by vote at the Board meeting of June 2, 1953.

It was further noted that an action for damages against the Commonwealth was brought to trial by a person alleging to be an assignee of all the rights, title and interest of the original intended purchaser and resulted from the fact that the Commonwealth was granted on April 18, 1950 a permit to use the premises as a parking lot. The finding was in favor of the Commonwealth and it would appear that this case is now closed, unless an appeal is entered for trial in a higher court.

A permit was issued effective May 1, 1950 granting the use of the State parking lot diagonally across the street from the Public Works Building for the public parking of automobiles during the hours 7 P. M. to 1 A. M. and all day Saturday, Sundays and Holidays. The permit expired December 31, 1950 and the tenant has since been occupying the premises as a tenant-at-will. It was understood that the area provides space for parking approximately 300 cars.

Under the terms of the permit the Commonwealth was to get 10% of the gross receipts payable the first day of each calendar month beginning May 1, 1950, each payment to be accompanied by a sworn statement.

The permit provided that the permittee shall keep accurate records of operations in a manner satisfactory to the Department, such records to be available for inspection by the Department at all times. In this connection it was understood that the Department has not exercised its right of inspection.

The records in the Department show that the following amounts have been received.

Fiscal Year 1950	\$ 15 00
Fiscal Year 1951	187 85
Fiscal Year 1952	353 70
Fiscal Year 1953 (July 1952 - May 1953)	298 90
	<u>\$855 45</u>

It was noted that improvements were made to the parking lot, the contract for which was awarded in the amount of \$19,711.50 and 16 bids were received for its rental. The lease was given to the highest bidder for \$556.00 per month.

Payments were made by the lessee for the months of November and December 1953.

**Survey by Accounting and Auditing Firm:** It was noted that contract No. 5360 was awarded by the Commissioners at a Board meeting held on May 19, 1953 to a firm to act as a consultant in a survey of the office of the Business Agent of this Department, together with its methods, procedures, equipment, organization and operations with a view to establishing a program which will increase the effectiveness and economy of the office, at a price not to exceed \$26,750.00.

On August 25, 1953 additional work was agreed to by the Board under that contract, in connection with the establishment of a budgetary control program for the current fiscal year, at an additional cost of \$3,000.00.

Invoices totaling \$29,212.50 were received from this firm. Records maintained by the Administrative Assistant to the Commissioner indicated that 253 5/8 man-days had been charged from May 20, 1953 to December 31, 1953, an average of \$119.00 per day.

Subsequently a second contract, No. 5487, was voted to this firm in the amount of \$55,000.00. This contract specified the following:



"In consideration of the payments hereinafter to be made to said ... and ... by the Commonwealth of Massachusetts, said Consultant agrees to make a complete and comprehensive study of the organization structure of the Department of Public Works, - including the Divisions of Highways, Waterways, and Public Beaches - and to submit written specific recommendations and report containing the findings of the study to the end that non-essential activities may be eliminated, and such changes in essential procedures as may expedite their effective performance may be put into effect, all as set forth in proposal dated September 1, 1953, except starting date, which shall be October 1, 1953."

Invoices totaling \$41,000.00 had been received from this concern to January 4, 1954. There, apparently for some reason, were no time records available within the Department on this contract. Under the contract payments were to be made as follows:

Nov. 1, 1953	\$11,000 00
Dec. 1, 1953	15,000 00
Jan. 1, 1954	15,000 00
Feb. 1, 1954	7,000 00
When final report is accepted by the Department	7,000 00
	<u>\$55,000 00</u>

It is understood that additional work will be necessary in order to properly implement the findings and recommendations of the study made by this concern which will cost, it is estimated, \$32,500.00. On this basis the total cost of the two surveys will probably total \$116,712.50.

In connection with this audit, requests were made for copies of reports to substantiate the work performed under the contracts, but had not been supplied to the date of the completion of this audit.

It would seem employment of services of this type by-pass existing statutes, which place such responsibilities with the Comptroller. In this connection the following statutory citations are shown:

Chapter 7 - Section 16 of the General Laws (Relating to duties of the State Comptroller) states:

"He shall design and install an accounting system for the commonwealth and prescribe the requisite forms and books of account to be used by each department, office, commission and institution of the commonwealth. No form or book of account other than that prescribed as aforesaid shall be used without the approval of the comptroller. He may revise such forms, books or system from time to time. He shall prepare and distribute a book of instructions covering the use and application of said accounting system for the guidance of the various departments, offices, commissions and institutions of the commonwealth."

Chapter 7 - Section 17 of the General Laws also states:

"He shall keep all general books of account and determine the extent and character of subsidiary accounts to be kept by all departments, offices, commissions and institutions of the commonwealth. He shall have full authority to prescribe, regulate and make changes in the method of keeping and rendering accounts. He shall establish in each such department, office, commission and institution a proper system of accounts, which shall be uniform, so far as is practicable, and a proper system of accounting for stores, supplies, materials and products, and may provide, when he deems it necessary, for a continuing inventory thereof. He shall provide such safeguards and systems of checking as will ensure, so far as possible, the proper collection of all revenue due the commonwealth; and where he deems it necessary, shall provide that forms and receipts shall be numbered consecutively, making each such department, office, commission or institution responsible for their use or cancellation."

Fees Paid to Consultants in Connection with Department Publications: The previous audit report stated:

"In further connection with the expenditures charged to the appropriation account for 'Highways Engineering and Administration', for the period under audit it was noted that fees were also paid to two consultants for services in connection with the compiling and indexing of research and statistical data. This information was assembled for the Department in connection with its proposed publication of a book to be entitled, 'Laws Relating to the Administration, Duties, Engineering and Maintenance Functions, Personnel and Powers of the Department of Public Works'.

"Most of the data submitted by the above consultants was compiled from the General Laws and Special Acts of the Commonwealth of Massachusetts. The fees for this total \$37,600.00 without taking into consideration the cost of printing which to date has not been approved by the Commissioner. From the foregoing it would appear that the publication of this volume which would include statutes, rulings, and legal opinions already made available through authoritative sources apparently represents a duplication of information available elsewhere.

"A review of the Budget Requests for the 1952 and 1953 fiscal years indicates that no provision was made for the publication of the proposed book or for any related consultant's fees in the budget item, 'Highways Engineering and Administration'. The following summarizes the fees already paid to consultants in connection with this publication:

<u>Period Covered</u>	<u>Rate</u>	<u>Total Payments</u>
Nov. 14, 1949 to June 30, 1950	\$500 00 per month each	\$ 7,600 00
July 1, 1950 to Dec. 31, 1950	500 00 per month each	6,000 00
Jan. 1, 1951 to June 30, 1951	500 00 per month each	6,000 00
July 1, 1951 to June 30, 1952	500 00 per month each	12,000 00
July 1, 1952 to Dec. 31, 1952	500 00 per month each	6,000 00
		<u>\$37,600 00"</u>

This compiled data is being held in the Secretary's section. No further expenditure had been made, and apparently there will be no publication of the proposed book.

**Damages Due from Contractor's Surety Company:** In this connection the previous audit report stated:

"It was noted that a contract awarded on August 29, 1950 in the amount of \$326,710.75 for the reconstruction of a section of State highway in the towns of Holden and Rutland to be completed by September 1, 1951 was abandoned on June 21, 1952 by the contractor due to circumstances beyond his control. The value of the work completed on the contract totaled \$239,161.80 leaving a balance of \$87,548.95. Subsequently the Board on June 24, 1952 authorized the surety on the bond for the contract to proceed with the completion of the previously abandoned contract.

"On August 5, 1952 the Board received a report from an official of the Department which stated, that prior to the abandonment of the project the contractor had completed a section of macadam surfacing of approximately 9,500 feet in Holden and 750 feet in Rutland at a cost to the State of \$22,097.86. This surfacing was subsequently found to be unsatisfactory and unacceptable. To bring this section of road into condition for acceptance the Department and the bonding company executed an agreement, effective August 15, 1952, whereby the bonding company agreed to complete resurfacing with a 1 1/2 inch pavement of bituminous concrete, which it is estimated will cost approximately \$20,000.00. It was also agreed that the Department and the bonding company would each pay 50% of the cost.

"The records indicate that this work was completed in April 1953 at a total cost of \$20,191.80 of which \$10,095.90 will be paid by the Department. It was also understood that action will be taken against the bonding company upon the completion of the contract to recover damages for unacceptable



macadam surfacing for which the Commonwealth paid \$22,097.86."

It was noted that on the certificate of completion the date of June 16, 1953 was indicated. On November 19, 1953 a report to the Chief Engineer showed the analysis of the liquidated damages as follows:

Extra time of engineers, 5 due to delay	\$15,832 60
State and private car mileage and meals	2,231 94
Extra time of traffic men due to delay	10,205 00
	<u>\$28,269 54</u>
Reserve being held	<u>\$18,596 03</u>

It was further noted that the minutes of the meeting held December 8, 1953 referred to the Holden - Rutland contract No. 4624 as being completed by the Peerless Casualty Company, and it was voted that the work be approved as of June 16, 1953 and further that the sum of \$28,269.54 be assessed as liquidated damages on this contract.

Contract - Contract No. 5486: This contract was awarded for the construction of a parking area on the Northerly side of Nashua Street near the Department of Public Works. The award was made September 22, 1953 in the amount of \$19,711.50 with the completion date set at October 10, 1953. This contract however had not been accepted as completed to the date of audit.

Contract No. 5411: This contract for the construction of a parking area in the rear of the Public Works Building, 100 Nashua Street was awarded June 30, 1953 at \$20,039.29. The completion date had been stipulated at September 26, 1953, but a time extension had been granted to December 10, 1953. Its final cost had not been determined at the audit date.

Contract No. 5338: For this contract, bids were opened January 6, 1953 for widening the street, constructing a wall, etc., in the rear of the State House Annex and the lowest bid of record was \$51,183.00. At a board meeting held February 3, 1953 all bids were rejected because the lowest bidder had not previously done any work for the department and failed to prove that he had the necessary qualifications to perform the work. In addition, unit bid prices submitted by him were said to be irregular and not consistent with the Department's estimates and prevailing prices.

The contract was readvertised for bids on February 14, 1953 and then was awarded to the lowest bidder on March 10, 1953 at \$54,956.50 with a specified completion date of June 5, 1953. This date was extended to July 30, 1953 when it was accepted as completed. The total value of the work done was \$60,855.53 including extra items.

Purchase of White Reflecting Paint and Clear Reflecting Beads: At a meeting of the Board October 30, 1953, a recommendation of the Chief Engineer to purchase paint and beads was approved by the Commissioner and one Associate Commissioner. The other Associate Commissioner dissented. In this connection the following excerpt from the minutes is shown:

"A meeting of the Commissioners was held today, Commissioner Volpe and Associate Commissioner Dole and Matera being present.

"A report from the Chief Engineer, dated October 26, was presented on the matter of the twelve bids received by the Purchasing Agent on October 6 on Requisition No. 02-2228 for white reflecting paint and clear reflecting glass beads; the Baltimore Paint & Color Works submitting the lowest bid on both items. It appears that based on the Pfund Cryptometer apparatus having a wedge constant 0.00035, which the Laboratory has had in its possession for at least twenty years, the gallon sample of paint submitted by the Baltimore Paint & Color Works was rejected, as the highest reading obtained was around 550 square feet per gallon. It further appears that at the request of the Baltimore Paint & Color Works' representatives their appeal to reconsider the findings based on their Pfund Cryptometer, a modern Black and White Type, using a wedge constant 0.0002, was accepted, and as a result and recheck of their previously

submitted sample of paint with the use of their standard Black and White Cryptometer, a Hiding Power greater than 800 square feet per gallon was obtained. Mr. Gray recommends, in view of the foregoing and because the specifications did not state any model or type of Pfund Cryptometer that should be used in the determination of the Hiding Power, that recommendation be made to the Purchasing Agent for the award of the 60,000 gallons of paint and the 180,000 pounds of beads to the Baltimore Paint & Color Works.

"Commissioner Volpe and Associate Commissioner Dole approved the Chief Engineer's recommendation. Associate Commissioner Matera dissented. (Mr. Matera is opposed to this recommendation because it does not provide the Department with the free dispenser service which was formerly supplied to it, and that the Department will now incur further expenditure to purchase, maintain and service the dispensers and require additional personnel to handle it to the detriment of its well-established white line program.)" Adjourned.

In connection with the foregoing, it was noted that order No. 305768 dated November 5, 1953 included the following:

60,000 gals. of Paint, Traffic White Reflecting -	
5 gal. can \$1.815	\$108,900 00
180,000 lbs. Beads, Glass, Clear, Reflecting -	
\$ .0675	12,150 00
Net 30 days	<u>\$121,050 00</u>

The purchase of 63 dispenser units at \$145.00 each was approved while this audit was in progress.

Extra Work Orders: The following list of approved extra work orders respectively amounting to \$5,000.00 or more were taken from minutes of Board meetings during the period from February 3, 1953 through December 31, 1953:

<u>Approved at Board Meeting</u>	<u>Contract No.</u>	<u>Extra Work Order No.</u>	<u>Amount of Extra Approved</u>
2-3-53	4979	4	\$ 5,479 56
2-11-53	4515	9	81,500 00
2-11-53	4515	10	62,700 00
2-11-53	4515	11	15,240 00
2-17-53	5104	4	5,850 00
3-4-53	5104	5	7,511 50
3-17-53	4485	11	6,200 00
3-17-53	4477	43	11,929 38
4-14-53	5104	3	12,936 55
4-14-53	4980	4	9,800 00
4-21-53	4713	5	8,903 75
4-28-53	5320	1	7,379 40
5-5-53	5218	3	6,440 50
5-5-53	5182	1	6,945 00
5-19-53	5212	4	5,600 00
5-26-53	5324	2	22,500 00
6-9-53	5103	3	92,093 00
6-16-53	4477	48	70,501 49
7-7-53	5094	1	15,000 00
7-7-53	5073	5	8,000 00
7-22-53	4920	5	9,150 00
8-5-53	4477	51	10,000 00
8-20-53	4713	8	27,000 00
8-20-53	5071	2	5,400 00
9-1-53	5295	7	5,750 00
9-1-53	5071	3	5,132 90
9-1-53	4659	7	6,500 00



9-22-53	5059	9	\$ 6,750 00
9-22-53	5102	4	9,574 00
9-22-53	5295	10	5,852 66
10-6-53	5091	3	12,328 00
11-5-53	5071	4	32,800 00
11-5-53	5447	1	12,538 00
11-5-53	5059	10	13,305 00
11-5-53	4477	55	14,302 65
11-17-53	4405	1	27,149 40
11-17-53	5313	1	35,000 00
11-25-53	5450	1	6,656 00
12-3-53	4786	4	10,985 62
12-15-53	5251	1	10,500 00

Refund Due Department by a Contractor: In this connection the previous report stated:

"It was noted that there was due the Department the sum of \$153.09 from a contractor who had submitted incorrect insurance rates on his invoice to the State for reimbursement of salaries and expenses of Traffic Officers employed in connection with contract #4834 - Repairs to Cowles River Bridge in the City of Westfield. It is understood that the insurance rates submitted by the contractor on this project were applicable to a previous construction project. The following schedule shows the submitted and correct insurance rates applicable to the refund in question:

<u>Description</u>	<u>Submitted Rate</u>	<u>Correct Rate</u>	<u>Excessive Rate</u>
Workmen's Compensation	12.675%	11.304%	1.371%
Public Liability	.640%	.688%	(.048%)
Excessive Rate Paid			<u>1.323%</u>

Salaries Paid Traffic Officers \$11,571.00 X 1.323% = \$153.09"

It was noted that a letter was written to the contractor by an associate civil engineer of this Department requesting a check for the aforementioned \$153.09. No payment is recorded as having been received from him nor was there any record of further correspondence in this matter. The Business Agent of the Department wrote to the contractor on March 3, 1954 while the audit was in progress requesting payment of this amount.

Contracts - Survey Parties: During this audit period, forty-seven such contracts were in operation. Of this number, nineteen were for the six months period from January 1, 1954 to June 30, 1954. These contracts were at the rate of \$80.00 per day for a four-man party, plus \$.07 per mile for mileage.

The previous audit report mentioned the lack of survey time records to be used for substantiating purposes by the Department. It was noted that this matter has since been corrected. It was further noted in the previous audit report that seven refunds totaling \$816.00 had been requested from the contractors. To date, two of these refunds have not been received, as follows:

R. F. C.	\$ 72 00
N. E. S. S., Inc.	<u>144 00</u>
Total	<u>\$216 00</u>

Letters, however, were on file from both contractors, and the first declared under penalties of perjury that the records were in error, and that the refund was not owed. The second acknowledged that the amount was owed but to date the amount in question has not been received. Steps should be taken to collect it.

Contract No. 4477 - Extra Work Order No. 57: Contract No. 4477 was awarded December 30, 1949 for the Boston - Somerville - Sullivan Square project. In this connection the following figures were taken from extra work order No. 57 which was dated June 15, 1953:

Accepted Bid Price	\$4,133,550 00
Estimated Total Cost of the Contract	5,632,388 75
Total of Extra Work Orders Previously	
Approved Nos. 1 - 56 Inclusive	841,114 69
Extra Work Order No. 57 - Approximate	195,794 32

The extra work claim developed as the result of certain expenses arising from the collapse of a portion of the steel structure of the viaduct and for the reconstruction of certain sections and portions of the steel viaduct. The extra was approved at a meeting of the Commissioners held on December 15, 1953. An excerpt from the minutes of that meeting of the Commissioners relating to this matter follows:

"A report from the Chief Engineer, dated December 11, was presented, with reference to the claim of M. DeMatteo Construction Company on their Boston - Somerville (Sullivan Square) contract No. 4477. Part A of this claim includes work between Bent 13 and the south end of the steel work. Part B of the claim includes the rest of the work from Bent 13 to the north end of the steel viaduct, and includes work necessary on Bent 13 and the work on the rockers and bolsters on Bent 11. In summary, the Chief Engineer recommends that the Board authorize the issuance of an Extra Work Order covering all checked and approved items of work under Part B; that the contractor's claim for payment for general administration and overhead in addition to that incurred by extra work be denied; and that the contractor's claim for reimbursement under Part A be taken under advisement when further investigation can be made of the circumstances surrounding the agreement between the contractor and Thomas Worcester Co.

"Voted, That the recommendation of the Chief Engineer be approved."

Attention is directed to the fact that payment of this "extra" has been withheld by the Comptroller's Bureau and it remains unpaid as of the date of audit.

Contract No. 4450 - Claims for Additional Services: It was noted that a claim was filed with this Department for \$132,285.64 for additional consultants' services on Contract No. 4450. This matter has been referred to the Attorney General for his opinion. In this connection the following transcript from the minutes of the Board meeting held on February 16, 1954 was noted:

"A report from Project Engineer Delano, dated February 15, approved by the Chief Engineer, was presented. In his report Mr. Delano states that in connection with contract No. 4450 the consultants, Charles A. Maguire & Associates and Fay, Spofford and Thorndike, have performed additional services as listed below, with amounts incurred:

1. Study of Atlantic Ave. - Commerical St. Route	\$ 1,532 30
2. Estimate of Critical Materials	2,968 06
3. Studies re. fireproofing certain buildings	2,242 98
4. Revision of Contract "C", etc.	36,077 20
5. Revision of plans to save Braman-Dow Building	1,596 18
	<hr/> \$44,416 72

"He states that as the work for all of the above items, except Item 5, was authorized verbally, it now appears that the Attorney General is of the opinion that written authorization must exist before payments can be made to the consultants. In order to establish written authorization for the first four items as listed above, he submits letters which have been prepared giving dates when verbal orders were issued. He states that authorization for work under Item 5 was covered in the Department Secretary's letter of June 20, 1950, but that it now seems desirable to outline the method of payment in a letter, which he submits.

"Voted, That the five letters submitted be approved and that the Acting Commissioner be authorized to sign same."



**Contract Award Rescinded:** Attention is directed to the fact that bids were opened on September 29, 1953 for the construction of a Maintenance Depot on Water Street, Boston. On November 3, 1953 a contract was awarded to the lowest bidder of 15 bidders in the amount of \$159,900.00. However, the minutes of the Board meeting of December 1, 1953 indicates that it was voted to accept the recommendation of the Chief Engineer of the Department to rescind this contract and reject all bids. In this connection the minutes of that meeting indicate that the Attorney General was unwilling to issue a formal opinion that 1952 Bond Issue Funds may be used for this project, and further that the Comptroller's Bureau has indicated it will not approve payments from these funds for the construction of this project without such a formal favorable opinion.

**Architectural and Engineering Advisory Board:** It was noted that an advisory board has been established to review fees for design and consulting engineering services, and to recommend awards. This board recommended awards to three firms for the following projects:

Salem Grade Crossing  
Mansfield Grade Crossing  
Plymouth-Bourne

During this audit period eleven contracts with construction costs of approximately \$40,000,000.00 have been awarded to architects and engineers.

**Massachusetts Turnpike Authority:** The records of the Board meeting held on October 27, 1953 indicated that it was voted to approve under Section 6 of Chapter 354 of the Acts of 1952, the request that this Department incorporate into the Massachusetts Turnpike Authority the following three partially completed State Highways:

<u>Location</u>	<u>Contract No.</u>	<u>Amount Under Award</u>
Chicopee and Ludlow	5091	\$1,045,208 60
West Stockbridge and Stockbridge	5074	2,208,193 00
West Springfield and Chicopee	5069	1,776,699 20
Total		<u>\$5,030,100 80</u>

In this connection a letter from the Turnpike Authority dated December 22, 1953 states in part:

"The amount of the reimbursement to the Commonwealth by the Authority will be determined as provided in Section 6 -."

Section 6 of Chapter 354 of the Acts of 1952, however, states that the:-

". . . the actual cost thereof shall be reimbursed to the Commonwealth to the credit of the Highway Fund from the proceeds of its Turnpike Revenue Bonds."

It was further noted at the board meeting of July 14, 1953 that it was voted to pay the consultant under Contract No. 5067 the amount of \$10,794.64. This consultant's services were related to the plans, specifications and estimates for the so-called Springfield By-pass, relocation of Route 20, from West Springfield to Palmer. It appears, however, that the Turnpike Authority designated this by-pass as a part of the toll road. It was noted that when it was it was voted to pay this bill, it was stipulated that:

"The Turnpike Authority will eventually reimburse the Commonwealth for the cost of this work."

**Division of Beaches:** A Division of Beaches was created within this Department by Chapter 666 of the Acts of 1953 which took effect upon its passage July 3, 1953. This statute included the transfer of control of the Salisbury Beach Reservation.

To the date of audit, however, no income from this source was entered on the Department's records. It is understood, however, that such income from July 3, 1953 to the end of the summer season was handled by the Department of Natural Resources through its Division of Forests and Parks.

Chapter 673 of the Acts of 1953 which also became effective on July 3, 1953 provided for the erection and maintenance of certain recreational facilities in the Salisbury Beach Reservation to cost in the aggregate not more than \$900,000.00. A bond issue of \$1,000,000.00 by the State Treasurer upon the request of the Governor and Council is provided to meet the expenditures necessary to carry out the provisions of this act.

It was also provided that from the proceeds of the sale of bonds there shall be set aside the sum of \$100,000.00 as a reserve fund to pay charges for interest and amortization until the earnings from the recreational facilities shall be sufficient to pay said charges, and any balance remaining in the reserve fund shall be applied to the payment of the maturity of said bonds.

Appropriations for this purpose in the 1954 fiscal year were as follows:

Administration	\$ 10,000 00
Salisbury Beach Reservation:	
Bathhouse, Parking Area, etc.	900,000 00
Maintenance	90,644 00
	<u>\$1,000,644 00</u>

Transits: Confirmation notices were mailed to those employees of this Department who were charged with having transits in their custody. Of these, twelve were not returned despite second verification notices being mailed out, therefore it appears that this number seems to be unaccounted for.

Office Equipment Stolen in the Field: It was learned that a Monroe calculating machine was apparently stolen from the Survey Field Office in Westwood on June 30, 1953. It was thereupon voted at a Board meeting to remove this machine from the store-room records.

It was further noted that an electric adding machine and a calculating machine were stolen from the Field Office at 50 Nashua Street. In this case, however, the contractor reimbursed this Department in the amount of \$698.12 for them.

Engineering Equipment Written Off: Equipment which could not be accounted for was listed in a report made by the Chief Engineer presented at the Board meeting of October 19, 1953, with a recommendation that the items be removed, without charge, from the records of the several engineers. Of the fifty-four individuals appearing on this list, thirty-three had terminated their employment with the Department. It is believed that responsibility for the equipment should remain with the engineer receiving it and it is suggested that henceforth the records of the engineers should be checked for equipment, etc., charged to them prior to the termination of their services.

#### Division of Waterways

Accounting Transfer: A memorandum from the administrative assistant to the Commissioner dated August 3, 1953 indicated that instruction had been given to the assistant business agent to proceed immediately with the absorption of the Waterways accounting by the Business Agent Section with no transfer of personnel included.

Such transfer had not been completed to the date of audit, and the records of the Division of Waterways were not current at that time. Difficulty also was encountered in making the reconciliations of cash, advance money, and accounts receivable. A general ledger has never been put into operation in this Division, and the lack of general ledger control accounts has severely hampered the examination of these accounts.

At the date of audit a balance of \$391.15 was still open on the 1953 fiscal year advance, and this item was not cleared until February 1954. As of June 30, 1953 there was \$8,625.42 of 1953 advance money outstanding of which \$8,234.27 was cleared between July 1, 1953 and November 19, 1953 with the cash book being held open until the latter date.

Local cash disbursements from advance money were not entered in the cash book and several other entries were omitted from both sides of the cash book. It was also noted that vouchers received from the telephone company with pay station commissions were missing for the entire audit period.

Accounts Receivable - Charges Not Entered: It was noted that the following charges totaling \$24,536.95 accruing prior to January 4, 1954 had not been entered:



Certified Copying Charges	\$ 13 00
Rents - Boston Harbor District	150 00
License Charges	1,270 94
Rents - New Bedford Pier	4,659 30
Telephone Receipts	79 74
Gloucester Fish Pier	<u>17,473 97</u>
Total	<u>\$23,646 95</u>

**Suspense Accounts Receivable:** These accounts as of January 4, 1954 were checked to the records of the Attorney General's office for collection. It was noted that one account of \$573.83 could not be located and it was learned that a letter had been sent to the Department December 27, 1952 by the Attorney General authorizing that \$548.83 of it be charged off. Apparently the balance of \$25.00 had never been referred for collection, and it is suggested that the balance be cleared in the routine manner subsequent to which the entire account should be canceled.

**Forfeited Bid and Specification Deposits:** On June 30, 1953 a check for \$2,160.00 was sent to the State Treasurer representing deposits forfeited. It was later learned that this check should have been drawn for only \$2,155.00. It is suggested that the necessary adjustment be effected.

**Advances from State Treasurer:** An examination of the Advance Fund receipts and disbursements for this audit period indicates that certain accounting transactions in this Division do not conform to the accounting directives appearing in the Comptroller's Accounting Manual.

The following shows the particular Comptroller's regulations together with related transactions which do not appear to be in agreement:

"Repayment of Advances: The cash balance of all advances will be returned at the close of the fiscal year to the State Treasurer."

The Division records indicate that advance moneys applicable to the 1953 fiscal year were returned to the State Treasurer on the following dates:

<u>Date</u>	<u>Receipts Voucher</u>	<u>Appropriation Account</u>	<u>Amount</u>
July 23, 1953	1	7722-88-00	\$2,695 69
July 28, 1953	4	7722-88-00	2,114 14
July 28, 1953	5	7722-88-00	855 95
Aug. 3, 1953	6	7722-88-00	672 92
Aug. 10, 1953	7	7722-88-00	397 81
Sept. 10, 1953	10	7722-88-00	1,358 56
Oct. 23, 1953	21	7722-88-00	96 58
Oct. 28, 1953	22	7722-88-00	9 90
Nov. 19, 1953	25	7722-88-00	32 72
			<u>\$8,234 27</u>

"Fund Receipts - Unpaid Checks: A spending agency must stop payment on all checks (excepting those issued for salaries or wages) which have been issued payable from the Commonwealth's funds and have not been cashed by the payee within one year from the date of their issue. These amounts must be paid into the State Treasury to be credited to the Unpaid Check Fund."

A bank reconciliation of the Division Advance Fund as of January 4, 1954 indicated twenty-two checks more than two years old which were outstanding. A list of these checks follows:

<u>Year Issued</u>	<u>No. of Checks</u>	<u>Total Amount</u>
1939	2	\$ 4 44
1940	3	8 40
1942	2	5 32

1943	2	\$ 3 55
1944	1	9 53
1945	1	4 45
1946	7	41 43
1947	1	2 00
1950	1	25 00
1951	1	2 00
1952	1	5 00
	<u>22</u>	<u>\$111 12</u>

Accounts Receivable - Overdue Accounts: In aging the accounts receivable it was noted that accounts totaling \$16,612.06, representing charges dated 1952 back to 1947 and prior years were still carried in an active category.

During previous examinations of the records of the Waterways Division, suggestions were made that all accounts more than one year old be turned over to the Attorney General for collection or disposition.

In this connection the Comptroller's Bureau Accounting Manual also provides that overdue accounts be referred to the Attorney General for collection and provides further that they be set up in a separate suspense accounts receivable. It is again suggested that these provisions be followed.

Accounts Receivable - Verification Notices: The outstanding accounts receivable as of the date of audit totaled \$28,619.99. Verification notices were mailed to approximately 20% of these accounts. Several notices were returned by the Post Office Department marked "address unknown". Others were returned with notations to the effect that they had no record of the charge. The latter cases were referred to the head administrative clerk of the Department and duplicate bills were sent out. From the foregoing it would appear that the accounts should be controlled more carefully. In the case of overdue accounts, statements should be rendered at least monthly.

Gloucester Fish Pier: On February 26, 1937 the Commonwealth of Massachusetts through this Department, in accordance with the provisions of Chapter 311 of the Acts of 1931, Chapter 303 of the Acts of 1936, as amended by Chapter 29 of the Acts of 1937 and Chapter 91 of the General Laws, leased to Gloucester Community Pier Association, Inc., the Gloucester Fish Pier with certain buildings to be erected thereon at an annual rental of \$20,000.00, said lease to run for twenty years. On October 10, 1949, the lease was extended for a twenty-year period to September 30, 1969, and the rent was increased to \$25,000.00 annually to be paid quarterly, beginning October 1, 1949.

Under the provisions of Chapter 653 of the Acts of 1945, as amended by Chapter 663 of the Acts of 1947, the Department of Public Works was authorized to expend not more than \$350,000.00 to make certain additions to a building and its equipment which are located on the Gloucester Fish Pier, provided that the Department shall first execute an agreement with the Gloucester Community Pier Association, Inc. to reimburse the Commonwealth for the cost of such work in twenty equal annual installments, the first to be made on the date of completion of the work. Such an agreement was executed as of October 10, 1945 and was amended September 3, 1947. The work was completed on December 19, 1949 at a cost of \$349,479.34 and the first annual payment of \$17,473.97 was accordingly received on January 31, 1950. In this connection it was noted that the fifth annual payment which was due December 19, 1953 was still unpaid on the date of audit, January 4, 1954.

Leases Between Commonwealth of Massachusetts and the Fall River Line Pier, Inc.: The previous audit report stated:

"Under authority of Chapter 665 of the Acts of 1945 and Chapter 308 of the Acts of 1947, a lease was entered into on May 17, 1948 for a term of twenty years in the aggregate rental of \$1,000,000.00. This rental was divided to be paid in each of the years as follows:

\$22,000 00 yearly	First 2 years	\$ 44,000 00
24,000 00 yearly	3rd year	24,000 00
30,000 00 yearly	4th year	30,000 00
38,000 00 yearly	5th year	38,000 00
46,000 00 yearly	6th year	46,000 00
51,000 00 yearly	7th and 8th year	102,000 00



\$50,000 00 yearly	9th to 14th year	\$ 300,000 00
55,000 00 yearly	15th year	55,000 00
63,000 00 yearly	16th year	63,000 00
70,000 00 yearly	17th year	70,000 00
76,000 00 yearly	18th, 19th and 20th year	228,000 00
Total		<u>\$1,000,000 00"</u>

"The annual rentals are to be paid in equal quarterly payments as follows: the first quarterly payment to be made three months after the date of the lease and subsequent payments on corresponding dates of every third month in each year during its term."

In this connection a previous audit report stated:

"In reference to the foregoing lease, it was noted that the last payment made under it by the Fall River Line Pier, Inc. was through February 17, 1950, and that charges have only been set up to May 17, 1950. On the date of audit, there was an outstanding balance of \$5,500.00 in this account.

"In this connection, the following memorandum from the Chief Administrative Clerk to the Director of Waterways, which was entered in the board records on January 30, 1951 is shown:

COPY

January 25, 1951

"-----, Chief Administrative Clerk  
-----, Director

Fall River State Pier  
Unpaid rentals under lease

"The last payment made by the lessees of the pier was for the quarter ending February 17, 1950. Bills have been rendered for the ensuing three quarterly periods, ending November 17, 1950. Several conferences have been held by the Commissioners with Fall River officials relative to the Department's inability to complete construction due to insufficient funds. The Fall River officials have stated that they could not make any further payments under the lease as they have been deprived of potential income from the property, due to its incomplete state.

"It appears that some revisions in the lease will be required covering rentals, but these will necessarily have to be delayed, pending additional legislation to modify rental requirements as set up under the enabling act.

"The question of our continuing to send rent bills was discussed with Assistant Attorney General -----, who attended several conferences at the Commissioner's request, and Mr. -----, advised that we send the bills and simply hold copies as a pending matter for future adjustment, without entering them as accounts receivable, since there appears to be some doubt as to whether or not the rentals are collectible under present conditions.

"This memorandum is submitted as a matter of record.

/s/-----

Chief Administrative Clerk"

"It was noted in connection with the current audit that the records in the Division of Waterways indicate that the Fall River Line, Inc., has been billed for \$103,500.00 for the period from May 18, 1950 to November 17, 1953, in accordance with the terms of the lease. This indebtedness is carried in a memorandum account, as suggested by the Department of the Attorney General, and does not appear in the accounts receivable ledger which shows a balance of only \$5,500.00."

"On February 3, 1953 the matter was turned over to the Attorney General for disposition."

In this connection it was noted that a memorandum from the Chief Administrative Clerk to the Commissioners on May 18, 1953 indicated that no reply had been received to this letter, and inquired whether the Commissioners wished to have the matter again referred to the Attorney General. It was further mentioned that the Pier Corporation had sub-leased part of this property to the New Haven Railroad at an annual rental of \$24,000.00.

In this connection a conference was held March 3, 1954 with the representatives of the Fall River Line Pier, Inc., relative to the renegotiation of the terms of this lease as they related its payments. The lessees had made payments totaling \$38,500.00 through April 28, 1950, and had made an additional payment of \$30,000.00 on February 5, 1954.

At this time compromise arrangement was suggested for the first 10 year period of the lease on the following terms:

For the first 6 years	\$16,000 00 per year	\$ 96,000 00
7th and 8th year	22,000 00 per year	44,000 00
9th and 10th year	50,000 00 per year	100,000 00
		<u>\$240,000 00</u>

A payment of \$27,500.00 would also be made concurrent with the execution of an amendment to the lease to bring the total payments to the total of \$96,000.00, for the first 6 years. Payments for the second 10 year period would be discussed 2 years hence, provided this compromise agreement is finally negotiated.

**New Bedford State Pier:** This pier is apparently being used principally for storage purposes, and not for shipping. The use of such a pier for storage will, of course, result in a substantially lower amount of income than could be obtained from shipping revenue. The Director has maintained that the pier is not closed to shipping, but it is understood that shipping interests have not been able to use it because the storage facilities were filled.

It is further understood that storage rent paid to the Commonwealth by a trading corporation is less than half the amount received by the private corporation from the Federal Government in rent for storage facilities at the State Pier.

It is suggested that this contract be renegotiated, and storage space be made available for shipping interests.

**Contracts:** The previous audit report related the facts relative to the award of the contract for construction at the State Pier in Fall River.

In this connection it was noted that the Commissioners at a meeting held on March 3, 1953 rescinded its vote of January 16, 1953 and awarded this contract to the original lowest bidder.

The following contracts which were completed during this audit period showed large variances between the contract awards and the final cost of the work completed:

<u>Contract Number</u>	<u>For</u>	<u>Contract Award</u>	<u>Final Cost</u>
1247	Dredging	\$ 73,960 00	\$ 98,759 33
1276	Dredging	102,600 00	288,740 00
1287	Dredging	96,450 00	146,448 20
1321	Dredging	441,200 00	489,200 00
1121	Orient Heights to Beach, East Boston	100,800 00	189,026 88

**Bathhouse - Provincetown:** A bathhouse was constructed on the Province Lands in the town of Provincetown and was opened during the summer of 1953. The construction contract - No. 1212 for \$107,344.00 - was accepted as completed July 27, 1953.



## MILITARY DIVISION OF THE EXECUTIVE DEPARTMENT

REPORT NO. 54-83

Administration Building for Massachusetts National Air Guard at Logan International Airport: A letter dated June 26, 1953 from the Chief of the Air Installations Branch, Air Force Division, National Guard Bureau of the Department of the Army and the Air Force addressed to the Adjutant General of Massachusetts states that the Federal Government has allocated \$474,828.00 for the construction of this building. As a matter of information it is noted that the Federal Government awarded a contract under date of June 24, 1953 for the construction of this building. It is understood that when the building is completed the Federal Government will turn it over to the Commonwealth of Massachusetts.

The Commonwealth of Massachusetts provided the architectural and engineering services in connection with the construction of this building and for such services entered into a contract under date of April 24, 1953.

Maintenance and Warehouse Building for the Massachusetts National Air Guard at Logan International Airport: As a matter of information it is noted that the United States Government awarded a contract under date of June 27, 1952 for the construction of this building for \$372,243.00 and the total cost was \$381,570.69. After the building was completed it was turned over to the State Quartermaster on November 2, 1953 and accepted by him on that date.

The Commonwealth of Massachusetts provided the architectural and engineering services in connection with the construction of this building and for such services entered into a contract dated May 15, 1952. The total amount paid in this connection was \$13,214.73.

Federal Participation Contract: For the 1953 fiscal year service contracts were entered into with the Federal Government whereby the Commonwealth is to be reimbursed for 75% of the operating costs of certain installations as follows:

<u>Contract Number</u>	<u>Location</u>	<u>Maximum amount to be reimbursed to the Commonwealth by the Federal Government</u>	<u>Actual amount reimbursable to the Commonwealth by the Federal Government applicable to contract</u>
DA-19-093-NG-88	Commonwealth Maintenance Depot, Whittemore Center, Ayer	\$ 13,500 00	\$ 9,886 92
DA-19-093-NG-89	Fort Devens Airfield, Ayer	5,000 00	4,245 30
DA-19-093-NG-87	Commonwealth Supply Depot, Natick	36,150 00	27,008 00
DA-19-093-NG-91	Massachusetts Military Reservation, Falmouth	4,000 00	4,000 54*
DA-19-093-NG-95	101st Communication Squadron, Somerville Armory	2,600 00	2,600 00
DA-19-093-NG-69	Barnes Field, Westfield	21,500 00	21,500 00
DA-19-093-NG-68	Aviation Facilities at Logan Airport, East Boston	34,900 00	34,890 08
DA-19-093-NG-67	Air Facilities at Grove Street, Worcester	2,000 00	1,258 32
		<u>\$119,650 00</u>	<u>\$105,389 16</u>

\* Overpayment by Federal Government.

Federal Reimbursements - National Guard Service Bureau: Attention is called to the fact that the contract balances not reimbursed as of January 4, 1954 totaled \$9,428.31. The amounts due, included in this total, are subject to review by the Bureau before payment by the Federal Government.

Accounts Receivable: The previous audit report stated:

"A review of the inactive accounts indicated that charges totaling \$2,150.00 for the rental of the National Guard Hangar at East Boston have remained unpaid since 1947. This account which has been referred to the Attorney General for disposition does not appear in the accounts receivable control account in the general ledger so it is suggested that the necessary entries be made and entered."

It was noted that this item was set up in a Suspense Accounts Receivable in the general ledger as of April 30, 1953.

Income - State Quartermaster: It was noted that with the exception of income on account of Camp Curtis Guild Rifle Range other income is reported to the general book-keeper in the Adjutant General's office on a cash basis. It is suggested that all income be reported on an accrual basis so that the control account in the general ledger may reflect the actual amount due.

Armorer's Monthly Reports: The previous audit report stated:

"In a few instances these monthly reports did not include complete information regarding rentals and services rendered during the month covered by the report. It is suggested that these reports show all information as to hours and type of services rendered together with any other pertinent information."

It was noted that this suggestion has been adopted.

Target Hire - Cash Vouchers: The previous audit report stated:

"It was noted that the cash vouchers for target hire did not indicate the name of the persons, or organization using the facilities. It is therefore suggested that these vouchers include this necessary means of identification."

It was noted that this suggestion has also been adopted.

Telephone Pay Stations: The previous audit report stated:

"It is suggested that an active list of telephone pay stations located in armories and on other National Guard premises be maintained on file at headquarters. Commissions received from this source were checked only as recorded."

As this suggestion has not been adopted attention is again called to it.

Check Register: The previous audit report stated:

"It is suggested that the Comptroller's Bureau be contacted relative to the installation of a check register to be used in connection with the issuance of the printed serially numbered block checks which have no attached stubs."

As this suggestion has not been adopted attention is again called to it.

Endorsements on Checks Issued for Allowances: The previous audit report stated:

"It was noted that many checks drawn quarterly to the various National Guard units fail to show sufficient and proper endorsements. It is understood that an endorsement stamp has been ordered for this purpose."

It was noted that the endorsement stamp has been obtained and is now being used.



**Industrial Accident Cases:** It was noted that three employees of the Division of the State Quartermaster had received compensation during the audit period from the Industrial Accident Board. One of these employees who had been injured on August 8, 1952 received full wages from the date of his injury through October 1, 1952 on the basis of \$235.00 a month by applying 33 days sick leave and 10 days of accumulated vacation leave. From October 2, to October 31, 1952 inclusive, this employee was removed from the pay roll while receiving only \$128.57 from the Industrial Accident Board.

A second employee who was injured on May 19, 1953, received industrial compensation of \$128.57 for the period June 20 through July 19, 1953, but no time was used from his accumulated sick leave, however, to make possible the payment of his complete salary.

The third employee who was injured on July 20, 1953 was kept on the pay roll through September 10, 1953, after applying his 31 days of accumulated sick leave. He received industrial compensation only from September 11 through September 27, 1953. He returned to his duties on September 28, 1953. However, a second period of disability began for him on November 1, for the same injury on which date he was dropped from the pay roll and compensation was paid him by the Industrial Accident Board for the period from November 1, 1953 through November 15, 1953. The compensation for the two disability periods totaled \$137.15.

It is suggested that these cases be reviewed and adjustments necessary in the interest of the three injured employees be effected.

#### ARMORY COMMISSION

REPORT NO. 54-84

Special Appropriation - Certain Modifications to Commonwealth Armory: Item 7704-03 of Chapter 756 of the Acts of 1951 reads as follows:

"Service of the Armory Commission for certain modifications to the commonwealth armory, to be expended in part in conjunction with federal funds available for the purpose; provided, that expenditures under this item shall not be subject to the provisions of section three of this act . . . . . \$250,000.00"

**Contract for Architectural and Engineering Services:** Under date of November 17, 1952 a contract was made with an architect for such services in connection with the modifications of the Commonwealth Armory. This contract was signed by all three members of the Armory Commission.

Under date of June 18, 1952 an agreement, No. DA-19-093-NG-102, was entered into between the Department of the Army and the Air Force, National Guard Bureau of the United States and the Commonwealth of Massachusetts relating to construction of armory facilities and provides that the engineering services will be performed by the State. Section 2 of Article II of the agreement provides that the Federal Government agrees to pay 75% of the construction costs and Section 1 of said Article II provides that the Government's share will be paid directly to the contractor.

In other words, the Commonwealth is responsible for the entire cost of engineering and the cost of construction is divided, 25% by the Commonwealth and 75% by the Federal Government, as the work progresses. The Federal share payments are made by the Finance Officer, Army Base, Boston, Massachusetts direct to the contractor.

Under date of August 4, 1953 a contract for the modification of the Commonwealth Armory was awarded to the ----- Construction Company for \$691,198.00, which was the low bid of the bids of record. The contract was signed on behalf of the Commonwealth by:

William H. Harrison, Jr.  
Major-General A. G. C., Massachusetts National Guard  
The Adjutant General  
Chairman, Armory Commission

It was noted that while the contract for engineering services was signed by the three members of the Armory Commission, the contract for the construction work was signed only by the chairman of the Armory Commission.

It was noted that the contract was awarded in accordance with the unanimous vote of the Armory Commissioners as shown by the minutes of the meeting held on July 28, 1953.

It was also noted that apparently the contract was not approved as to form by the Attorney General.

Included in the specifications for the modification of the Commonwealth Armory on

which the contractors submitted their bids were certain bond requirements, a copy of which follows:

"SC-7A Bond a Payment Bond - The contractor agrees to furnish a payment bond with good and sufficient surety or sureties acceptable to the Commonwealth for the protection of persons furnishing material or labor in connection with the performance of the work under this agreement on U. S. Standard Form No. 25-A or U. S. Standard Form No. 25-C. The penal sum of such bond will be 50% of the contract price.

"b. Performance Bond - The contractor further agrees to furnish a performance bond with good and sufficient surety or sureties acceptable to the Commonwealth in connection with the performance of the work under this agreement on U. S. Standard Form No. 25 or U. S. Standard Form No. 25-B. The penal sum of such performance bond will be 100 percent of the contract price."

It was noted that the "payment bond" was for \$345,599.00 or approximately 50% of the contract price as required, but the performance bond was not written for 100% of the contract price but for only \$345,599.00. This was called to the attention of the proper officials and the contractor was notified by letter dated January 27, 1954 and a new bond for \$691,198.00 was filed with the Military Division.

Special Appropriations - Construction of Armories: Item 7604-01 of Chapter 604 of the Acts of 1952 reads as follows:

Service of the Armory Commission

"For the construction of armories, including furnishings and equipment, to be expended in connection with federal funds available for this purpose; provided, that expenditures under this item shall not be subject to section three of this act . . . . . \$175,000.00."

This Act was effective July 4, 1952.

Item 8564-01 of Chapter 660 of the Acts of 1953 reads as follows:

Service of the Armory Commission

"For the construction of armories, including furnishings and equipment, to be expended in connection with federal funds available for this purpose, to be in addition to the amount appropriated in item 7604-01 of section two of chapter six hundred and four of the acts of nineteen hundred and fifty-two; provided, that expenditures under this item shall not be subject to section three of this act . . . . . \$160,000.00."

This Act was effective July 3, 1953.

To date of audit no expenditures have been made under these appropriations, but when the armories are constructed the cost will be prorated, 25% by the Commonwealth and 75% by the Federal Government in accordance with the Agreement, Department of the Army and the Air Force, National Guard Bureau and the Commonwealth of Massachusetts dated June 18, 1952.

**METROPOLITAN DISTRICT COMMISSION**

REPORT NO. 54-86

Quabbin Reservoir Income: The previous audit report commented that income cash had been withheld from deposit and was used as a change fund. This situation has been corrected and this area now has an advance for this purpose. Collections on account of income are now deposited in a local bank and copies of the deposit slips are sent to the Boston offices weekly together with a complete accounting.

Purchase of Land in Brighton District: The purchase of a parcel of land at the junction of Soldiers Field Road and Western Avenue in Brighton which the Commission had agreed to, was subsequently disapproved by the Governor and Council on August 20, 1952. A law suit had been brought against the Commission by the owners to recover the



original sales price of \$357,500.00. On February 6, 1953 the suit was decided by the Superior Court of Suffolk County in favor of the plaintiffs for \$366,772.51 and payment was accordingly made by the Commission on February 17, 1953.

**Lease of Land and Building in Cambridge:** It was noted that the Commission on October 9, 1952 voted to rent on a lease basis a parcel of land and a building on River Street in Cambridge for 3 years at an annual rental of \$5,000.00. Inasmuch as this lease had not been approved in conformance with Chapter 8, Section 10A of the Tercenary Edition of the General Laws, the lessor was advised on June 24, 1953 that the Attorney General had ruled the lease invalid.

It was noted, however, that a total of \$4,105.63, not including four months rent aggregating \$1,665.22 had been paid by the Commission for maintenance expenses, etc., while the Commission was in possession of these premises. The lessor has also brought suit against the Commonwealth which is still pending for the balance of the rent plus damages to the property.

**Nantasket Hotel and Tivoli Shelter:** As the Nantasket Hotel was not rented during the 1953 summer season, there was no income from this source. The balance outstanding for previous years totaling \$30,127.03 which has been turned over to the Attorney General for collection has not been settled to the date of audit.

The Tivoli Shelter has been rented under a lease starting in 1952 which expires at the end of the 1954 season. This lease stipulates rental payment in full on the first day of each season. It was noted, however, that this contract was breached in 1953, as five separate rent payments were made after the season had opened. As this lease still has another season to run, it is suggested that all precautions necessary to safeguard the interests of the Commonwealth be exercised.

**Sewerage - Nut Island, Quincy:** A visit was made to Nut Island in connection with this audit. Attention is directed to the fact that there was a substantial inventory of parts and tools on hand with a valuation of approximately \$200,000.00. These items had all been charged out to expense originally. It was noted, however, that cards were being compiled to control inventory in the storeroom as of the date of audit.

It is suggested that the Comptroller's Bureau review this situation and install necessary records.

**Inventory at Glenwood Yard:** The previous audit report stated in this respect:

"In connection with this audit a test inventory of 78 items in the Glenwood Yard was taken on September 19, 1952. A comparison of the quantities on hand with the stock records maintained at the main office in Boston indicated several differences, many of which were quite large. It was learned that no complete inventory has been taken since 1937 by the commission. Since that date only minor clerical adjustments and corrections have been made on the inventory cards when variances were noted. While it is true that many of the items on hand are of great bulk and weight and cannot be moved easily, it is most important that the records be adjusted to reflect the correct quantities of items stored. It is therefore recommended that an inventory of all stock items be taken and the necessary adjustments be effected."

On January 26, 1954 a test inventory was taken in connection with this examination, of 39 items of active stock at this location.

A comparison of the quantities on hand with the stock records maintained at the main office in Boston indicated several differences.

It was also learned that no complete inventory had been taken by the Commission during this audit period, and it is again recommended that such an inventory be taken at least once each year.

**Thefts at Glenwood Yard:** On March 30, 1953, 6 inlet hoods valued at \$10.50 each with a total valuation of \$63.00 was apparently stolen from the Glenwood Yard.

Another series of thefts developed during the months of June, July and August, 1953, when 25 manhole covers valued at a total of \$300.00 were stolen.

The Metropolitan District Commission police, who were notified by Water Division officials, are currently engaged in an investigation of this matter.

**Pay Roll Check Endorsements:** The prior audit report stated as follows in this connection:

"When the weekly pay roll checks are prepared they are sent to the various divisions, etc., for distribution. In connection with this audit a test examination of these weekly pay roll checks was made and it was noted that several checks in one section carried two endorsements. When these endorsements were compared it was obvious that the same person had signed the original endorsements on several of these checks. This matter was discussed with the director and a superintendent of the Parks Division, and it was learned that in certain instances checks are endorsed by one person, who takes them to a bank where they are cashed. The proceeds is subsequently properly distributed. According to the superintendent, this procedure is followed as a convenience for the employees.

"It is however suggested that this procedure is not good as it could inconvenience several employees indirectly, and it also confused auditing procedures. This practice of permitting a person other than the payee to endorse checks should be discontinued immediately."

A check of the pay rolls indicated this situation still exists. It is therefore again suggested that the Commission take the steps necessary to ascertain that the checks reach those for whom they are intended and that endorsements are properly made by original payees.

**Consultants' Contracts:** Although the four divisions of this Commission are staffed by engineers, from time to time the services of Consultant Engineering and Architectural firms have been engaged. The contracts and agreements with such consultants which were in effect during the audit period were examined. It was noted that the invoices for payments to such consultants for active contracts during the audit period totaled \$637,711.69. In addition, invoices for payments made to several of these consultants whose contracts were negotiated prior to the current audit period totaled \$694,283.78. A total of \$1,331,995.47 was thus paid to consultants under all such contracts during the entire audit period.

**Work Performed by Metropolitan Transit Authority:** The Commission agreed to reimburse the Metropolitan Transit Authority for work which the Authority undertook, as follows:

Relocation of columns at Lechmere Square:	
Preliminary engineering expense	\$ 1,595 05
Structural changes to viaduct	181,434 22
Removal and reinstallation of poles, trolley wires, etc., a/c relocation of abutments	1,691 88
Total	<u>\$184,721 15</u>

Relocation of track a/c Forest Hills Overpass:	
Engineering expenses	\$ 6,643 46
Flagging expense	12,683 35
Removal of track	4,388 54
Installation of track	64,364 35
Installation of poles and trolley wires	18,338 74
Total	<u>\$106,418 44</u>

It was also learned that the Metropolitan Transit Authority is presently engaged in extending its rapid transit system from Orient Heights to Revere, and in this connection is constructing an overpass for the elimination of a traffic hazard in the Beachmont section at an approximate cost of \$200,000.00. It would therefore appear to be consistent with past policy for the Metropolitan District Commission to make reimbursement for this project.



amending Chapter 542 of the Acts of 1948, as amended, provides as follows:

"Section 2. For establishing and maintaining a place or places of custody under this act, the board may expend such sums as may be appropriated therefor. Not later than October first in each of the years nineteen hundred and fifty-two, nineteen hundred and fifty-three and nineteen hundred and fifty-four, the board shall certify to the state treasurer, the total amount expended by it under this act during the preceding fiscal year. One half of such amount shall be assessed on the city of Boston as provided by section twenty of chapter fifty-nine of the General Laws."

In this connection a letter, a copy of which follows, was sent to the State Treasurer by the Division of Youth Service:

September 30, 1953

Mr. Foster Furcolo  
Treasurer and Receiver-General  
State House, Boston

My dear Mr. Furcolo:

We hereby certify under the provisions of Chapter 422 under the acts of 1952 that the following amount was expended to maintain the Detention Center at 105 South Huntington Avenue, Boston for the year ending June 30, 1953:

Code 1384-01 - Total	\$102,689 15
Liabilities	3,361 19
Cash Value	99,327 96

The Auditors request that the following amounts be deducted due to the liabilities reverting to the State Treasurer:

1951	\$2,776 13
1952	1,258 57

Very truly yours,

wvf:w

Director

The previous audit report commented in this connection that under the statute it would appear that the City of Boston might also be assessed for the cost of the establishment of the Detention Center. To date the State Treasurer has not made such an assessment nor has, as far as could be determined, an opinion been requested or received from the Attorney General relative to the propriety of this course of action.

Detention Center: As of July 1, 1953 the Detention Center bookkeeping records were separated from the records of this Division and are now maintained by a bookkeeper at the Center. A separate audit has been and will henceforth be made of these accounts and it will no longer be included with the audit of the accounts of this Division.

Trustee Accounts - Cash Received from "Other Sources": During the audit period there was received from so-called "Other Sources" \$1,559.72 for the accounts of boys and \$324.69 for the accounts of girls as follows:

Boys

Turned over by Boys	\$1,066 84
Division of Child Guardianship	112 51
Legal Aid Society	106 00
Malden Court	105 00
Insurance Company	101 80
Federal Government - Compensation	52 00
City of Boston	15 57
	<u>\$1,559 72</u>

Girls

Relatives	\$242 00
Turned over by Girls	64 19
State Agency	18 50
	<u>\$324 69</u>

**Reimbursement for Support of Children:** In this connection Chapter 385 of the Acts of 1948 states as follows:

"The court may make an order for payment by parents or by the child's guardian out of the ward's property, or by any other person responsible for the care and support of said child, to the institution, department, division, organization or persons furnishing care and support at times to be stated in an order by the court of sums not exceeding the cost of said support after ability to pay has been determined by the court; provided, that no order for the payment of money shall be entered until the person by whom payments are to be made shall have been summoned before the court and given an opportunity to be heard. The court may from time to time, upon petition by, or notice to the person ordered to pay such sums of money, revise or alter such order or make a new order, as the circumstances may require."

With reference to this matter, the previous audit report stated:

"In certain cases where children are committed to the care of this board by court order, a parent is ordered to pay a designated amount for the support of the child. These payments are made directly to the Probation Officer of the court which has jurisdiction, who remits these collections to this board.

"In connection with the foregoing, it was impossible to determine from the records the number of those parents who had been thus ordered to pay, nor was it possible to determine the periods that the reimbursements covered. It is, therefore, suggested that a separate file card be kept for each case and that some system be provided so that these collections may be currently controlled."

Inasmuch as no action has been taken on the foregoing suggestion, attention is again directed to it.

**Reception Detention Building:** Section 2 of Chapter 756 of the Acts of 1951 provides for:

"The construction of a reception-detention building on property now owned by the Commonwealth in the city of Boston, including the cost of furnishings and equipment . . . . . \$575,000.00"

To the date of the audit only \$6,615.89 has been expended from this appropriation. Chapter 660 of the Acts of 1953 further provides for an additional appropriation of \$325,000.00 for an addition to the detention building but as yet no expenditures have been made from this latter account.

**Cash Account:** It was noted that both advance money cash and trustees cash were combined in one account. It is suggested that the account be separated so that the balance of each can be readily determined.

**Unpaid Checks:** It was also noted that two checks in the respective amounts of \$10.00 and \$15.00 have been outstanding for more than one year. It is recommended that payment be stopped on them in accordance with the instruction in the Comptroller's Accounting Manual.

**Suspense Accounts Receivable:** It was noted that accounts receivable sent to the Attorney General for collection are not recorded in a Suspense Account as is required by



the regulations set forth in the Comptroller's Accounting Manual.

**Trustee Accounts - Girls' Division:** Attention is directed to the fact that balances in the Girls' Trustee Accounts totaling \$47.35 are still being retained in the active accounts even though the girls to whom the money belongs have been discharged, or their whereabouts are unknown. This money should either be sent to its rightful owners and their accounts closed or else it should be segregated in an inactive account.

**Suspense Account - Girls:** It was noted that bankbook No. 604863 of the Provident Institution for Savings is included with the active accounts under "Suspense Account". The balance in this account, as of the date of audit, was \$8.10 and represented an accumulation of several balances of less than \$1.00 each, together with small interest items, dated back to 1939.

**Savings Bankbooks Held as Property:** Bankbooks not included with the Trustee Accounts were being held as "property" by the Division of Youth Service on January 4, 1954. The individuals named on four of these bankbooks are, according to available records, over 40 years of age and one is more than 21 years of age.

It is again advised that the Board consider the matter of the disposition of these accounts.

#### DIVISION OF SAVINGS BANK LIFE INSURANCE

REPORT NO. 54-88

**Medical Director's Account:** It was noted that the Medical Director who is the only official authorized to sign checks on this account was not bonded, which fact was brought to the attention of the proper official during the course of the current audit, and effective January 10, 1954 he was bonded for the sum of \$4,000.00.

#### STATE TEACHERS COLLEGE AT WESTFIELD

REPORT NO. 54-89

**Daily Time Record:** It was noted that a daily time record was not being maintained at this college. It was also noted that the vacation and sick leave register for respective employees was not being currently posted.

It is therefore recommended that a record of the daily time of employees be established and that the sick leave and vacation register for all employees be posted to date.

#### WESTBOROUGH STATE HOSPITAL

REPORT NO. 54-91

**Coal Adjustments:** In March 1953 a large shortage was noted by institution officials between the balance in the stock ledger account for bituminous coal and the actual inventory in the coal pile.

At that time an exhaustive study was made to determine the reasons for the shortage and in this connection two complete checks of the records of account were made and it was understood that only two clerical errors of a minor nature were found.

In this connection it was also learned that the chief engineer of this institution had retired on August 31, 1952 and it was understood that, with the exception of minor adjustments, his estimated inventories and the books of account were in agreement.

Accordingly when the new chief engineer took charge of the institution power plant on September 15, 1952, evidences of considerable variances were indicated when he submitted his estimates of the actual coal inventory on hand.

It was therefore decided in March 1953 that a shortage adjustment would be made based on the formula and estimate of the new chief engineer and subsequently an adjustment requisition was prepared and forwarded to the Department of Mental Health for approval. The reason given for the necessity of this adjustment was indicated as:

"... this shortage can only be the difference between two methods of estimating the coal inventory."

The adjustment requisition was for a shortage of 1,074.991 tons at \$11.5388 per ton, a total value of \$12,404.11.

The institution was at a later date visited by the business agent of the Department of Mental Health together with a representative of the Commission on Administration and Finance and a conference was held regarding this matter with institution officials. However, the representative of the Commission on Administration and Finance apparently did not agree with the formula used by the present chief engineer and the institution was advised to use a new formula. Therefore the adjustment requisition as originally prepared was returned, accompanied by a letter dated March 30, 1953 calling attention to

the new method to be used, and stating that the adjustment, if it were computed on the second basis, would be approved. The requisition was accordingly changed to the following:

1,395.841 tons at \$11.5388 per ton, a total of \$16,106.33. It was submitted to the business agent of the Department of Mental Health who approved it, and it was recorded on the records of the institution.

On April 1, 1953, on which date a new coal contract became effective, it was decided that all coal delivered thereafter would be placed in a separate location. The steward's office was to be advised when the old pile, which had been delivered during the period when the aforementioned shortage developed, was exhausted. On September 16, 1953 this situation was attained. However, in relation to the old contract, the book balance on that date showed a red balance of 749.4784 tons, necessitating the following overage adjustment:

749.4784 tons at \$11.5646 per ton, a total value of \$8,667.42.

In further connection with this matter it was understood that the only adjustment of coal between 1949 to 1952 was one for a shortage adjustment of 100 tons in August 1952, based on an estimate of the former chief engineer shortly before his retirement.

It is obvious that there was a real necessity for an adjustment subsequent to August 1952. However, its size, whether it was based on the estimate of the chief engineer or the method prescribed by the representative of the Commission on Administration and Finance, would seem to indicate an inconsistent and unreliable procedure of determining the actual physical inventory.

It is therefore suggested that greater care be exercised in determining the true figures, insofar as is possible, before adjustments of such substantial values are finalized.

**Pay Roll Checks Outstanding More than Three Months:** It was noted that there was a number of checks in this account which were outstanding for more than three months. The Comptroller's Bureau Accounting Manual indicates that payment should be stopped on all such checks, three months after their issue date. One of these checks was dated in December 1951, more than two years ago.

It is therefore recommended that the list of outstanding checks applicable to the pay roll bank account be established and those more than three months old be handled in accordance with the instructions contained in the Comptroller's Bureau Accounting Manual. It is further suggested that such a review be made at regular intervals so that such checks will not remain in this category for such unreasonable lengths of time.

**Variances Between Rates on Quarters Register and Pay Roll Deductions for Room Rents:** Several variances of both undercharges and overcharges were noted between the rates called for on the Quarters Register and those used in deducting room rent from the employees' salaries on the pay roll, in a test check which was made of one month's pay roll deductions.

Particular attention is directed in this connection to an instance where an employee occupying a room for which the established rate was \$2.28 per week had no deduction made from her salary, from October 1, 1953 until the matter was called to the attention of the institution treasurer's office during the course of this examination, on March 2, 1954.

All other variances were also called to the attention of the institution treasurer's office and it was understood that pay roll adjustments or refunds will be made.

**Pay Roll Account - Checks not Endorsed by Employees:** In connection with vouching the pay roll checks for the month of September 1953 seven instances were noted of checks which had not been endorsed by the payee.

It is not understood how the banks were willing to pay the checks without the required signatures.

**Meat Inventory:** An unusually high inventory of certain meats was noted on January 31, 1954 particularly 14,242 pounds of frozen hamburg and 26,940 pounds of canned beef and gravy.

In this connection it was noted that during the month of February 1954, 7,876 1/2 pounds of hamburg and 9,450 pounds of beef and gravy were received at the institution



and issues of hamburg during that month totaled 10,003 pounds; beef and gravy totaled 3,360 pounds.

It was learned that these meats were United States Government surplus and had been distributed through the State Department of Education, School Lunch Program. The institution pays only a small handling charge to this Agency.

**Patients' Fund Checks Outstanding More than One Year:** It was noted that there were 15 checks totaling \$687.96 which had been outstanding in this account for more than one year. Two of them had been issued in 1951 and were therefore more than two years old on the date of audit.

As it appears unlikely that these checks will ever be presented for payment, it is recommended that payment be stopped on them, and the proceeds be disposed of in accordance with existing directives.

**Patients' Valuables:** Section 39B of Chapter 123 of the Tercentenary Edition of the General Laws, as amended, deals with the disposition of unclaimed belongings at certain State hospitals, known as "patients' valuables" and reads as follows:

"Property, known as 'Patients' Valuables', belonging to, or deposited for the benefit of, former patients of any state hospital, or former patients under the supervision of the department, which shall have remained unclaimed for more than one year, shall be disposed of as hereinafter provided, but only if all known next of kin of the former patient shall have been notified in writing by said superintendent or by the department, as the case may be. Such disposition shall be made by a special board consisting, in the case of a former patient of a state hospital, of the superintendent of such hospital and a representative of the department designated by it, or, in the case of a former patient under the supervision of the department, of one or more representatives of the department designated by it. The board shall ascertain whether the property has any sale value and, if so, shall solicit from at least three reputable dealers in like property offers for the purchase thereof, and shall sell the same to the dealer offering the highest price. The proceeds of such sale shall be added to the funds deposited by the superintendent of the hospital or by the commissioner, as the case may be, known as 'Patients' Funds' and shall be disposed of as provided in section thirty-nine A. The board may dispose of such of said property as, in its opinion, has no sale value, or any of said property for which no offer, solicited as aforesaid, has been received, in such manner as it may deem proper. A complete record of each transaction hereunder shall be made and signed by all members of the board and filed with the other records at the hospital or at the office of the department relating to the former patient whose property shall have been disposed of as aforesaid."

This matter was reviewed during the course of the current examination and it was learned that no action has been taken by this institution in this connection for several years. As a matter of fact, no record could be found at the institution indicating that it had ever taken steps to dispose of such items. It has now become a problem to provide adequate storage space for the envelopes containing these belongings in the institution vault as cartons containing them were stored on the floor.

Property cards which are maintained for each envelope also strain the filing facilities. It is therefore recommended that steps be initiated to dispose of the patients' belongings in accordance with the existing statute.

**Patients' Fund Cash not Needed for Immediate Requirements to be Transferred to a Savings Bank Account:** It was noted on the date of audit, funds totaling \$18,409.43 were on deposit in a commercial checking account. A review of the transactions during the audit period indicated that the payments from the fund totaled \$49,888.00 and the receipts totaled \$51,571.75, an excess of receipts over payments of \$1,683.75. It would therefore appear that a considerable portion of this balance is not required for immediate use and could be deposited in savings bank accounts in order to gain interest.

The interest on savings bank deposits for the audit period totaled \$845.04 which might have been substantially increased if action had been taken to transfer a part of this balance to savings accounts.

**Patients' Bank Account:** In November 1953, a savings bank passbook was sent to the bank concerned by the institution treasurer's office for the purpose of crediting the interest on it. This book was returned accompanied by a note stating, "The dividend checks are mailed semi-annually." No indication was given of the person to whom such checks were mailed. An examination of the particular patient's ledger card failed to show a record of any receipt of funds from this source since her admission to this institution.

This matter was discussed with the institution treasurer and it was learned that the husband of the patient has made efforts to obtain possession of this passbook contending it to be a joint account. The deposit book however indicated it to be an individual account in the patient's name.

It is therefore suggested that the institution should make an effort to trace the dividends as she obviously did not receive credit for them while she was a patient.

It was learned that this patient died on February 12, 1954.

**Assistant Treasurer Not Bonded for Canteen Duties:** The assistant treasurer at this institution functions as the bookkeeper for the canteen. In this capacity she handles the daily cash receipts at the treasurer's office, in addition to other duties which include the counting, sorting, entering and depositing of all canteen receipts. She also pays all bills and signs checks for their payment.

It was noted that the position of assistant treasurer is bonded only for the handling of State funds, and no bond was noted for her handling of the canteen funds. It is therefore recommended that a bond be obtained to protect the handling of such funds by the assistant treasurer.

**Trust Funds - Transfer of Balance in the Carrie Ward Fund from a National Bank to a Savings Bank Account:** It was noted that the last previous interest credited to the bank account of this fund during the audit period was at the rate of 1%, whereas the interest credited to bank accounts in the other trust funds was at the rate of 3%.

It is therefore recommended that the balance in this Fund be transferred from the National Bank where it is now on deposit to a Savings Bank account in order to obtain greater yield.

**Escrow Retirement Fund Checks Outstanding Over One Year:** In connection with reconciling this bank account it was noted that there were three checks appearing as outstanding which were more than one year old.

This matter was discussed with the institution treasurer and it was learned that payment was stopped on them while this examination was in progress and the funds sent to the State Treasurer.

**Custody of Employees' United States Savings Bonds, Series E, by Institution Treasurer's Office:** Savings bonds are purchased once a month by the institution treasurer on behalf of employees who subscribe in the pay roll deduction plan. A register is maintained in which an account is kept for each employee in which appears his name and the serial numbers of the bonds purchased. A space is also provided beside the number where the employee signs his name when he receives the bond.

On reviewing this register it was noted that there were certain accounts which did not show signatures indicating receipts of the bonds.

This matter was discussed with the treasurer and it was learned that these particular employees concerned did not sign the register because the bond certificates were left in her custody for safekeeping. All such bond certificates were subsequently examined.

In this connection it was noted that one employee had seventeen bonds of \$100.00 each on deposit in the treasurer's office which have dates from August 1952 to February 1954.

#### DETENTION CENTER

REPORT NO. 54-92

**Books and Records:** As of July 1, 1953, the books and records of the Detention Center were separated from the records of the Division of Youth Service, and a separate audit of the Detention Center will be made henceforth.

It is recommended that the Comptroller's Bureau make a survey of this agency so that all transactions may be properly recorded. In this connection the advisability of installing a general ledger, a stock ledger and a pay roll bank account should be considered as well as any other proper subsidiary records.



**Petty Cash:** It was noted that the method of handling petty cash disbursements was not in accordance with the regulations set forth in the Comptroller's Accounting Manual, which states in part:

"Spending agencies may elect to record the individual payments from the advance directly to the credit side of the cash book . . . or they may elect to summarize the payments from the advance, as recorded under the various subsidiary accounts . . ."

A petty cash fund has been established but the transactions are posted to the credit side of the cash book, instead of in the manner indicated in the regulations.

**Materials and Supplies:** No inventory of materials and supplies was taken in connection with this audit, inasmuch as there was no stock ledger or control account in use to which such an inventory could have been reconciled.

**Canteen Account:** At present the canteen records consist of only a check book. It is suggested that a cash book be installed to record the receipts and disbursements of this fund.

#### STATE TEACHERS COLLEGE AT SALEM

REPORT NO. 54-93

**Funds Transferred to State Treasurer:** Income is transmitted to the State Treasurer at the end of each month. This practice is not in conformity with the existing statutes which require daily deposits except where permission has been granted by the State Treasurer to make them less frequently. It is recommended that permission to make these remittances on a weekly basis be obtained and that these funds be so transferred.

**Book Store and Co-operative Society:** The accounts of these two activities of the student body were not examined in connection with the current audit.

**Sales Slips:** At present the college receives income other than from semester fees without first preparing sales slips. It is recommended that a supply of sales slips be requisitioned and used as set forth in the Comptroller's Bureau Accounting Manual.

#### WESTFIELD STATE SANATORIUM

REPORT NO. 54-94

**Accounts Receivable - Board of Patients:** The accounts receivable balance as of February 1, 1954 was aged and indicated the following:

Outstanding under 1 year	\$58,941 10
Outstanding under 2 years	2,139 03
Outstanding under 3 years	735 57
Outstanding under 4 years	97 00
Outstanding over 4 years	305 78
	<u>\$62,218 48</u>

It is recommended that these accounts receivable outstanding for more than one year be transferred to the Attorney General for collection or disposition.

**Pay Roll Checks:** It was noted that the pay roll checks, which are given to employees, do not furnish them with any information regarding deductions from gross weekly pay roll. It is suggested that pay roll checks be obtained which will indicate all deductions made.

**Sale of Trucks:** At the suggestion of the Commissioner of Administration and Finance, the Superintendent of this institution declared two trucks as surplus and they were subsequently turned over to the State Purchasing Agent for disposal or reassignment. These trucks were sold on bid and the following amounts were realized:

1947 Ford, Panel, 1/2 ton truck	\$200 00
1948 Ford, Stake, Dump, 2 ton truck	350 00

**Overtime Compensation:** The rules and regulations as authorized by Section 7 of Chapter 7 of the Tercentenary Edition of the General Laws, governing overtime wages paid to State employees, states in part as follows:

"OE-2 Subject to prior approval by the Division of Personnel and Standardization, overtime compensation will be paid as authorized by Section 30A of Chapter 149 and Section 5 of Chapter 8 of the General Laws to persons employed by the Commonwealth, other than those exempted from the provisions of Section 30A of Chapter 149 of the General Laws or otherwise provided by law. However, employees so exempt but for whom a 48-hour week is recognized will be eligible for overtime compensation.

"Overtime previously approved by the Division of Personnel and Standardization and the department head should be scheduled for payment at the end of each month and shall be scheduled for payment within sixty days after the overtime was performed. Compensatory time off in lieu of overtime shall not be allowed . . ."

In connection with the foregoing it was noted that, although overtime at this institution is held to a minimum, occasionally employees are given time off in lieu of cash. It was further noted that detailed daily overtime records are not maintained for employees in the Operating Room.

It is suggested that this rule be complied with and that all leaves be recorded on the time books.

**Outpatient Fees:** Attention is directed to the fact that fees have been established for outpatient treatment at this institution, as follows:

Outpatient Examination	- no fee
Outpatient Medical or Surgical Treatment	\$3 00 per treatment
Outpatient X-Ray Therapy	3 00 per treatment*

\* Total not to exceed \$25.00

In connection with these fees, it was noted that a total of 13,470 visits were made to the outpatient department, of which 5,492 were to the Tuberculosis section and 7,978 were to the Cancer section during the 1953 calendar year. The daily record of treatments at this outpatient department was analyzed for that year and it was noted that 1,486 of these patients examined had also been given treatments for which fees had been established. The financial records of the institution, however, indicate that fees had been charged for 58 visits. This situation was discussed with the personnel concerned and it was indicated that a fee is charged only when the patient is able to pay. Their ability to pay is determined by the nurse at the outpatient department or the social service department.

It is recommended that the entire procedure in the outpatient department be reviewed by a representative of the Comptroller's Bureau and a system for the collection and determination of fees be put into effect.

#### TREASURER AND RECEIVER-GENERAL

#### GENERAL DEPARTMENT

REPORT NO. 54-95

**Salary Withdrawals:** An examination was made of salary advance request cards which had come from the several state agencies. This examination indicated a need for a more careful processing of these withdrawal requests in order that payments shall not be made too far in advance of properly approved pay roll schedules. Drawings should not be made more than a month in advance of the pay roll unless the employee is employed upon a temporary status and is awaiting approval by the Division of Personnel and Standardization. Even in such cases drawings should not be allowed more than two months in advance of pay roll. In this connection, it was noted that drawings had been made several months in advance of an approved pay roll.

In some instances the withdrawal request cards did not indicate the amount of salary per month to which the employee was entitled. This item should always be inserted.

An examination of the withdrawals made by four employees of a certain department indicated that they were made from March 1953 to June 30, 1953 even though no funds



had been appropriated to pay their salaries, nor had any approval been received from the Division of Personnel and Standardization to cover their employment. Although approval is being sought to have these expenditures covered by a deficiency appropriation, such an appropriation has not been made as of this audit date. However, prior to the completion of this audit, it was learned that a deficiency appropriation had been authorized to permit these payments to the four employees concerned.

It is also pointed out that withdrawal requests should be approved by the proper departmental authorities. No approvals should be sought in the State Treasurer's office, nor should any such approvals be granted by members of the State Treasurer's staff to employees of other agencies.

With regard to those cases where employees of the Commonwealth had made withdrawals of salary and had left the State service owing money to the Commonwealth, inquiry was made of the approving authorities who had signed the withdrawal requests and all information obtained has been submitted to Treasury officials for whatever action may be necessary. It was learned that in most instances the amounts owed are being repaid in installments.

**Bank Reconciliations:** It was noted that in eleven of the twenty-four active bank accounts, the reconciliations made in connection with this examination indicated pending adjustments. It is suggested that they be cleared as soon as is practical.

**Bank Interest in Arrears - Reserve Bank Accounts:** It was noted that inactive revenue funds are now on deposit in more than one hundred Massachusetts banks and have been earning interest at the rate of 1% since early in 1951.

In connection with the audit of reserve bank interest which totaled \$79,328.73 for the audit period, it was noted that additional interest in the amount of \$2,496.94 was in arrears on February 4, 1954. This fact was brought to the attention of the department officials with the result that \$2,459.44 of it was collected by the Treasurer's office while this audit was in progress. It is also understood that the remaining \$37.50 will be paid by the banks on their next semi-annual interest due dates.

Due to the absence of interest due dates for certain reserve banks on the Treasurer's records, considerable difficulty was experienced in establishing the bank interest in arrears as of the audit date. It is, therefore, urged that more complete records be maintained to include all dates on which interest is payable to the Commonwealth.

**Certain Checks on Hand:** The previous audit report included a comment relative to certain checks payable to a retired employee of the Metropolitan District Commission which were in the office because that employee refused to accept them. These checks include salary items from October 1, 1943 to March 31, 1946. In addition it was noted that this individual has not cashed any of his retirement checks from April 1946 to February 4, 1954, and the records indicate that a total of 127 checks have been issued to him during the period indicated. Of these checks, 103 were found on file in the vault of the State Treasurer on February 4, 1954. It was noted that 70 of the checks in the vault have already been transferred to the "Unpaid Check Fund" but the other 33 checks are still carried in the "Outstanding Checks" category on the Treasurer's records. Of the remaining 24 checks not cashed, 23 checks are in the "Unpaid Check Fund" and one check is in the "Outstanding Checks" category.

The total amount of uncashed salary and retirement checks of this retired employee totaled \$13,635.97 on February 4, 1954. In addition to these monies, it was understood that this former employee, who is also a war veteran, has failed to withdraw his retirement contributions which also amount to a considerable sum of money. It was learned that efforts are being made at intervals to urge this individual to accept these monies.

**Bonus Division - Uncashed Bonus Checks:** A listing of the unpaid bonus checks in the State Treasurer's vault on the date of audit which had been returned by the postal authorities because of poor addresses, amounted to \$5,400.00 as follows:

Per List February 2, 1953	\$10,900 00
Add:	
Checks Returned in Current Period	500 00
	<u>\$11,400 00</u>

Checks Remained to Proper Addresses in Current Period	\$ 300 00
Checks Over Six Years of Age Transferred to Unpaid Check Fund in Current Period	5,700 00
Per List February 4, 1954	5,400 00
	<u>\$11,400 00</u>

It was further noted that of the foregoing, checks totaling \$4,900.00 were more than one year old. It is again suggested that all such checks which were written more than one year ago be transferred to the Unpaid Check Fund.

Bonus Division - Overpayments: It was noted that the sum of \$5,575.00 was due to the Division as of February 4, 1954 on account of bonus overpayments made during previous audit periods.

The following shows the analysis of these accounts receivable account of bonus overpayments as of the date of audit:

Balance February 2, 1953		\$5,796 00
Deduct:		
Collections in Current Period	\$205 00	
Written Off as Uncollectible by Authority of the Attorney General	16 00	221 00
Balance February 4, 1954		<u>\$5,575 00</u>

It was noted that all of these accounts had been transferred to the Attorney General's office for collection or disposition. It was further noted that approximately \$4,500.00 of these accounts were more than six years old and are awaiting authorization from that department to be charged off as uncollectible.

Veterans' Housing - Issue of Bonds and Notes under Permanent Financing: As of June 30, 1953, 108 projects were in permanent financing, as follows:

102 Projects - Bonds Issued	\$113,566,000 00
6 Projects - Notes Issued	8,973,000 00
	<u>\$122,539,000 00</u>

The bonds involved included 9 group issues made on a serial basis and maturing over a period of forty years, as follows:

<u>Date of Issue</u>	<u>Amount</u>	<u>Rate of Interest</u>	<u>Maturities</u>
Oct. 1, 1950	\$ 10,109,000 00	1 3/4%	Oct. 1, 1951/90
Jan. 1, 1951	13,556,000 00	1 3/4%	Jan. 1, 1952/91
Apr. 1, 1951	9,251,000 00	1 7/8%	Apr. 1, 1952/91
July 1, 1951	7,789,000 00	2 1/8%	July 1, 1952/91
Oct. 1, 1951	13,264,000 00	2 %	Oct. 1, 1952/91
Jan. 1, 1952	10,357,000 00	2 1/4%	Jan. 1, 1953/92
Apr. 1, 1952	7,700,000 00	2 1/8%	Apr. 1, 1953/92
July 1, 1952	10,722,000 00	2 1/4%	July 1, 1953/92
Oct. 1, 1952	30,818,000 00	2 1/4%	Oct. 1, 1953/92
	<u>\$113,566,000 00</u>		

The notes were in two groups, as follows:

<u>Date of Permanency</u>	<u>Amount</u>	<u>Net Rate</u>	<u>Maturity</u>
Jan. 1, 1953	\$8,273,000 00	.8479%	Jan. 26, 1954
Apr. 1, 1953	700,000 00	.7442%	Oct. 26, 1954
	<u>\$8,973,000 00</u>		

Although these bonds and notes were issued in the names of the several local housing authorities, they are, nevertheless, guaranteed as to payments of interest and principal



by the Commonwealth and are, therefore, a contingent liability of the Commonwealth.

Borrowings up to \$225,000,000.00 may be made by local housing authorities under Chapter 200 of the Acts of 1948 as amended by Chapter 550 of the Acts of 1952. As of June 30, 1953, \$111,778,000.00 of the bonds issued were still outstanding. The notes outstanding on both permanent and temporary financing totaled \$69,547,000.00 and, therefore, represented a total contingent liability of \$181,325,000.00. This amount, however, does not appear in any of the debt statements appended to this audit report.

It was learned that notes were issued instead of bonds, on certain projects in the Permanent Financing status, because bids received for the bonds which had been contemplated were in excess of the interest maximum of 2 1/2% allowable by statute.

**Cash and Securities:** The records of this department indicated that at the close of business on February 4, 1954, the cash balance amounted to \$20,523,046.82 and the book value of securities totaled \$430,282,624.33. These securities included \$248,647,123.18 appearing to the credit of the Massachusetts Unemployment Compensation Fund which is in the custody of the Federal Government in Washington, D. C.

**Veterans' Services Fund:** It was noted in Statement XX of the Comptroller's Financial Report for the 1953 fiscal year that the account "Interest Accrued and Premium on Sale of Bonds" which amounted to \$9,772.09 appeared in the "Receipts" section of the Fund Statement. An examination of this statement, however, indicated that there were no receipts from the sale of bonds during the 1953 fiscal year. An examination of the receipts vouchers of this fund for the 1953 fiscal year indicated that this amount represented monies received from certain insurance companies on September 3, 1952 to be credited to "Unclaimed Funds".

**Treasurer's Annual Report:** An examination of this report indicated on Page 4 that \$8,861,000.00 was on deposit in commercial banks as of June 30, 1953 and that \$97,962.42 interest had been received from such deposits. Analysis of these accounts, however, indicated the following:

**Commercial Bank Deposits -** As of June 30, 1953, only \$7,916,000.00 was on deposit. The difference of \$945,000.00 was accounted for by deposits made in five banks between July 3, 1953 and September 10, 1953, which were erroneously included in this report as being on deposit as of June 30, 1953.

**Interest Received - Commercial Banks -** As stated heretofore, this annual report reflected \$97,962.42 as net interest received on commercial bank accounts. This examination, however, indicated that this amount included a net credit of \$33,009.73 which had been received from the Metropolitan District Commission as a charge for daily deficits. It was further noted that the ledger cards for the commercial banks reflected interest of \$4,133.84 as having been credited July 1, 1952 (1953 fiscal year) although the interest had been passed through the records as of June 30, 1952, supplementary, and therefore had been included with the prior year's income.

**Statement No. 6 - Direct Debt - Page 18 -** This statement reflected a total for Interest - 1953-54 as \$4,160,834.00; however, the detailed extensions of issues (pages 15 to 18 inclusive) totaled only \$4,157,334.00. On checking it was noted that an error of \$7,000.00 had been made in the extension of interest for the Capital Outlay Loan, Acts of 1950. The correct total was, however, used in Statement No. 6, Total, which reflected the interest due for 1954 and the indication, therefore, was that the relative figures of the detailed portion of the statement were not checked to the totals.

**Interest Receivable on Securities:** It was noted that on the date of audit, \$5,496.25 of interest on securities was due the Commonwealth and not yet received. During the course of the audit, \$5,276.25 of this amount was collected, leaving three items totaling \$220.00 still outstanding.

**Recent Issues of Massachusetts Bonds in Coupon Form:** The report of the State Treasurer for the fiscal year ended June 30, 1953 stated:

"All recent issues of Massachusetts bonds have been in coupon form. Currently, this office is recording and accounting for approximately 640,000 coupons issued on account of sixty different loans."

**Redeemed Bonds:** The previous audit report stated:

"In connection with this examination, several instances were noted where bonds redeemed by the Commonwealth had not been properly canceled by complete perforation. This function should be more carefully exercised in the future."

It was noted that this condition has been corrected and that for the period covered by this audit, all redeemed bonds were properly canceled by perforation.

BRADFORD DUFEE TECHNICAL INSTITUTE

REPORT NO. 54-96

Trust Funds: Section 43 of Chapter 74 of the Tercentenary Edition of the General Laws, as amended by Chapter 257 of the Acts of 1946, reads as follows:

"The Board of trustees of each of said institutes shall be a corporation for the purpose of taking by gift, bequest, or devise any real or personal property."

As has been stated in previous audit reports, the Board of Trustees voted on November 4, 1932, to transfer the management of all funds entrusted to its care to the B. M. C. Durfee Trust Company in Fall River.

The agreement in effect allows the bank to retain the custody of the securities and collect and distribute the income, subject to the direction and vote of the trustees. A nominal charge is made by the trust company for these services.

It is again suggested that the several notes held in the Students' Aid Fund, totaling \$101.41, which appear to be uncollectible, and have been outstanding for approximately 20 years, be charged off the books.

Institute Bookstore: Attention is directed to the fact that entries in the bookstore cash book for cash sales could not be checked or substantiated since no daily record of cash sales was maintained. The entries in the cash book merely reflect the deposit of cash in the bank.

It is suggested that the system of recording and accounting for daily cash sales be reviewed for the purpose of instituting proper and effective internal control of cash.

Frank S. Stevens Trust Fund: As of February 8, 1954, the Frank S. Stevens Trust Fund owed \$275.00 to the E. P. Charlton, Jr. Trust Fund for scholarship payments made from the latter fund in error during previous periods.

It is understood that this amount will be reimbursed as soon as there is sufficient income in the Frank S. Stevens Trust Fund.

American Association of Textile Chemists and Colorists Fund: The Rhode Island section of this Association donated \$1,000.00 to this institute to establish this fund. It is understood that the income from this fund is to be used to award an annual prize to the student submitting the best paper on any subject related to textile chemistry with the first award being made in 1952.

One of the conditions of this fund is as follows:

"In the event that less than four competing papers are submitted for two successive years, the competition is to be discontinued and the principal and accrued interest of this fund delivered to the National Treasurer of the American Association of Textile Chemists and Colorists."

It was noted that four competing papers had not been submitted for 1952 or 1953.

However, it is understood that verbal authority was received from the American Association of Textile Chemists and Colorists to continue this activity until December 31, 1954.

Athletic Fees: A review of the records maintained for the accounting of the Student Athletic Fee indicated that the amount shown as paid during the audit period was \$20.00 greater than the amount turned over to the Athletic Association by the Institute. This matter was brought to the attention of the proper personnel who were advised to locate the cause of this variance.



## BELCHERTOWN STATE SCHOOL

REPORT NO. 54-97

**Bank Reconciliations:** The two previous audit reports commented that the pay roll bank statements as of the date of audit had not been reconciled for two and three months. In this connection it was again noted on the date of the current audit that bank statements of all accounts had not been reconciled for three months.

It is urged that immediate steps be taken to effect these reconciliations currently.

**Signing of Checks:** It was noted that the signing of checks in blank in advance, as commented in the previous audit report, has been discontinued.

**Patients' Funds:** Cash belonging to the Patients' Funds which is not necessary in the normal course of operations has been deposited in the local National Bank where the rate of interest paid is considerably lower than that paid by Savings Banks. It is, therefore, recommended that these funds be deposited in Savings Banks where more interest may be earned.

**Excise Tax on Toll Telephone Calls:** Employees of this institution who make personal toll telephone calls through the facilities of this institution and who subsequently make reimbursement therefore were not, as of the date of audit, paying the federal excise tax on toll calls. While this audit was in progress necessary arrangements were completed to charge all employees for these taxes.

**Materials and Supplies:** The adjustments in the Materials and Supplies account for the audit period were reviewed and it was noted that overage adjustments totaled \$580.06 while the shortage adjustments totaled \$607.90 or an aggregate of \$1,187.96 on issues of \$348,458.88.

**Department of Industrial Accidents - Compensation:** Records of compensation to employees of this institution by the State Industrial Accident Board were examined and it was noted that one employee, who had been receiving disability compensation since November 23, 1951, had not received credit for 48 1/4 days of sick leave and vacation time accrued to June 30, 1953. This employee had not received the difference between her salary and the total of her disability compensation.

It is recommended that this institution process this matter in the manner prescribed in the Pay Roll Manual issued by the Comptroller's Bureau.

## TEACHERS' RETIREMENT BOARD

REPORT NO. 54-98

**Confirmations of Payments by Cities and Towns:** A total of 356 verification notices were mailed to the treasurers of various Cities and Towns in the Commonwealth for the purpose of confirming payments to the Board during the 1953 calendar year. Of these only 295 were returned.

**Reimbursements to Cities and Towns:** Payments from the fiscal year 1954 appropriation totaled \$1,458,799.88. This amount was for reimbursements due through June 30, 1952 and included amounts due the City of Boston as of that date.

**Records - Microfilm:** The bookkeeping records relating to teachers' deposits for the 1953 calendar year were microfilmed by order of the Teachers' Retirement Board while this audit was in progress.

## EMERGENCY FINANCE BOARD

REPORT NO. 54-99

**Activities of Board:** A summary of the respective number of cases requiring Board action or approval during the fiscal year ended June 30, 1953, follows:

<u>Description</u>	<u>Authority</u>	<u>No. of Items Acted Upon</u>	<u>Pro Rata Expense</u>
Post War Rehabilitation	Chap. 5 Acts of 1943	11	\$ 1,377 00
Public Works Projects	Chap. 74 Acts of 1945, as amended	10	1,635 74
Creation of Stabilization Fund	Chap. 124 Acts of 1945	1	-

Extraordinary Repairs to Public Buildings	Chap. 275 Acts of 1948	25	\$ 1,378 00
Municipal Relief	Chap. 90 Acts of 1949, as amended	21	2,398 20
Formation of Regional School Districts	Chap. 638 Acts of 1949	28	3,934 24
School Building Assistance	Chap. 528 Acts of 1950, as amended	64	3,861 62
Civil Defense Loans	Chap. 580 Acts of 1951	2	186 00
Debt Limit for Cities and Towns	Chap. 56 Acts of 1952	79	4,379 10
		<u>241</u>	<u>\$19,149 90</u>
Total Number of Board Meetings - 1953 Fiscal Period		<u>83</u>	

## DIVISION OF INDUSTRIAL ACCIDENTS

REPORT NO. 54-100

Change in Departmental Structure: Chapter 314 of the Acts of 1953, effective May 1, 1953, repealed Chapter 24 of the General Laws under which the Department of Industrial Accidents operated. Said Chapter 314 further amended Chapter 23 of the General Laws by creating within the Department of Labor and Industries a Division of Industrial Accidents. In this connection Section 1 of Chapter 314 of the Acts of 1953 reads as follows:

"Section 1. Chapter 23 of the General Laws is hereby amended by inserting at the end thereof the following ten sections under the caption DIVISION OF INDUSTRIAL ACCIDENTS:- Section 14. There shall be in the department but not under its supervision or control a division of industrial accidents, consisting of the industrial accident board hereinafter provided for . . ."

Bonded Positions: It was noted that the comment in the previous audit report recommending the bonding of certain employees has been complied with.

Accounts Receivable: The outstanding accounts receivable on February 23, 1954 totaled \$4,384.53 and were aged as follows:

<u>Calendar Year</u>	<u>Charges</u>
1954	\$2,007 50
1953	1,411 57
1952	200 00
1951	111 00
1950	10 00
1949 and prior	644 46
	<u>\$4,384 53</u>

The last item in the foregoing list included \$575.00, representing assessments made on insurance companies and self-insurers for "Cost of Failure to File Notice" of injury reports as required under Section 19 of Chapter 152 of the General Laws.

Inasmuch as there is doubt as to the collectibility of these items, it is suggested that the accounts comprising this amount be referred to the Attorney General for disposition.

Suspense Accounts Receivable: On February 23, 1954 there were 46 charges pending for reimbursement of Impartial Examinations, or 7 less than those noted at the time of the previous audit. It was noted that the bookkeeping office reviews ten to fifteen case histories each month and when each case is decided the charge is transferred to the active accounts receivable and the proper insurance company or self-insurer is billed.

Insurance Deposit Fund: This fund originally consisted of funds of certain defunct foreign insurance companies and sureties held in trust by this Division for payment of possible claims against them. The sum of \$12.31 which was expended during this audit period, closed out this account. However, it is understood that a further dividend may be forthcoming, in which event, a further distribution to creditors will be made.



In this connection it was noted that the Division still has on hand 9 checks totaling \$96.08 from a distribution made on May 16, 1952, which were returned as "unlocated" by the Post Office. It is suggested that these checks be disposed of in accordance with law.

**Public Employees Compensated for Injuries:** The appropriation for these purposes in the 1953 year totaled \$505,000.00, an increase of \$92,000.00 over the previous year. The reasons for this continued increase have been commented on in previous audit reports. It was also noted that several attempts have been made to provide a safety program for State employees in order to reduce the number of accidents, but as of the date of this audit no definite action has been taken.

**Fatal Industrial Accidents:** The recommendations made in this connection in the previous audit report were discussed with the chief of the inspection section and it is understood that the following suggested procedures would be put into effect in the so-called "Fatal Book":

- (a) All deaths will be recorded chronologically in alphabetical order in a ring binder.
- (b) All entries in this record 2 years and older will be reviewed periodically. A list of deaths recorded more than one year which are not in process of adjudication will be brought to the attention of the Board.

#### STATE TEACHERS COLLEGE AT LOWELL

REPORT NO. 54-101

**Lunchroom:** The lunchroom is operated by a caterer who has been serving students for the past three years. He pays all employees and furnishes the dishware. He also cleans up the entire lunchroom every afternoon. The Commonwealth furnishes all the utilities and there is no rental charge made to him.

Inasmuch as the prices charged by him are quite low, the President feels that if a rental charge were made it would probably result in higher prices.

#### NEW BEDFORD INSTITUTE OF TEXTILES AND TECHNOLOGY

REPORT NO. 54-102

**American Association of Textile Chemists and Colorists Fund:** The Rhode Island section of this Association donated \$1,000.00 to this institute to establish this fund. It is understood that the income is to be used to award an annual prize to the student submitting the best paper on any subject related to textile chemistry with the first award being made in 1952.

One of the conditions of this fund is as follows:

"In the event that less than four competing papers are submitted for two successive years, the competition is to be discontinued and the principal and accrued interest of this fund delivered to the National Treasurer of the American Association of Textile Chemists and Colorists."

It was noted, however, that four competing papers had not been submitted during 1952 or 1953, however, it is understood that the American Association of Textile Chemists and Colorists will be requested to continue this activity.

**Personnel Time Records:** It was noted that no permanent time records were being maintained for the personnel of this institute.

Since such time records are necessary to substantiate salary payments and credits for vacation and sick leave, it is recommended that such records be installed as soon as possible.

**Athletic Fund:** The receipts and disbursements for guarantees on account of games could not be completely or accurately checked because correspondence concerning several of these could not be located.

## METROPOLITAN STATE HOSPITAL

REPORT NO. 54-103

**Patients' Funds:** It was noted that the Patients' Fund bank account includes as outstanding 27 checks that have been in that category for more than one year. It is suggested that payment be stopped on them and the proceeds be properly credited to patients' accounts.

It was further noted that there are funds belonging to 11 patients who have been "discharged" or "escaped" for more than 7 years. It is suggested that the money involved be transferred to the State Treasurer in compliance with Section 39A of Chapter 123 of the Tercentenary Edition of the General Laws, as amended.

**Canteen:** It was noted that the Canteen cash book was not being currently maintained. On the date of audit entries for the month of February 1954 had not yet been recorded. These records should, of course, be kept currently.

It was also noted that no Spoilage Book is being maintained at the Canteen. It is suggested that such a record be established and maintained.

## MASSACHUSETTS MARKET AUTHORITY

REPORT NO. 54-104

**Engineering Contracts:** Two contracts for engineering services were examined. The first contract for \$40,000.00 provided for a preliminary engineering report, and under this contract \$22,000.00 had been paid or was payable from the Commonwealth's advance at the time when arrangements were made to obtain a further advance from the Federal Government under the provisions of Public Law 352, 81st Congress. Since under the terms of this Federal advance no work already completed could be paid from that money, only the remaining \$18,000.00 of this first contract could be paid from these Federal funds.

A second contract for \$60,000.00 for plans for site preparation was paid from the advance received from the Federal Government, and total payment on this contract was made in April 1953.

**Repayment of Advance:** Under the terms of the act establishing the Massachusetts Market Authority, the advance money was to be returned to the Commonwealth upon the issuance of the revenue bonds. Since no bonds are to be issued, it is recommended that the remaining cash of the Authority amounting to \$87.02 be turned over to the State Treasurer.

**Disposition of Equipment, Records, etc.:** It was noted that the equipment of the Authority has been turned over to the Commission on Administration and Finance except for one file cabinet which now contains the records of the Authority. This cabinet is currently in the custody of the last Chairman of the Authority.

It is recommended that all the remaining records and the books of account be turned over to the State Library under the provisions of Section 39 of Chapter 6 of the General Laws.

SPECIAL COMMISSION ON THE STRUCTURE  
OF THE STATE GOVERNMENT

REPORT NO. 54-105S

**Consultants' Contracts:** It was noted that contract payments totaling \$24,735.00 were made to a firm of consultants from New Jersey, who were engaged in making a limited job-salary survey as described in the Commission's statement of November 24, 1953 entitled "Statement Regarding Treatment of the Salary Area in the Commission's Personnel Study". The disbursements made were in full payment of the following contracts:

<u>Contract Number</u>	<u>Date</u>	<u>Period</u>	<u>Rate of Compensation</u>
1*	Nov. 13, 1953	Nov. 30, 1953 to Dec. 31, 1953	Principal: \$100 00 per day - services and \$15 00 per day - living expenses
			Associates (2): \$75 00 each per day - services and \$15 00 each per day - living expenses



2\*\* Dec. 30, 1953 Jan. 1, 1954 to Principal and two associates:  
Mar. 15, 1954 \$7,000 00 per month for staff

Summary

Contract #1	Payments	\$ 7,235 00
Contract #2	Payments	17,500 00
		\$24,735 00

\* Approved by special commission on the structure of the State Government

\*\* Approved by Commissioner of Administration and Finance

**BOSTON STATE HOSPITAL**

**REPORT NO. 54-106**

**Multiple Sclerosis Research Fund:** This fund is in the process of being closed because the National and State groups which formerly financed it have apparently withdrawn their support. There is, however, a possibility that another group within this State may offer financial support to this clinic in the near future.

**Bonding of Employees:** It was noted that there are presently eight employees with regularly assigned duties in the Institution Treasurer's office and of these, only four are bonded. Because of the accessibility of all employees to cash, etc., it is recommended that all this personnel be bonded.

**Materials and Supplies:** The test inventory of materials and supplies taken in connection with this audit as of March 15, 1954, indicated total shortages of \$6.35 and overages of \$33.61. Stock ledger adjustments made during the audit period totaled \$993.46 and of this amount, \$149.26 represented overages and \$844.20 represented shortages. Adjustments were found necessary because of the usual reasons, such as, clerical errors, spoilage, shrinkage, etc.

**BOSTON ARENA AUTHORITY**

**REPORT NO. 54-107**

**General:** The Boston Arena Authority was created to provide an indoor hockey and skating rink for the primary use of individuals, schools and amateur teams in the cities and towns of the metropolitan parks district. The legislation which created this Authority appropriated \$325,000.00 for its purposes and further provided that \$280,000.00 of this total be expended to acquire the Boston Arena, leaving the Authority only \$45,000.00 for operating capital.

Attention is directed to the fact that all of the assets thus acquired were and still are badly run-down and that many other items of equipment needed to successfully operate a project of this type were legally removed by the prior owners before transfer of title to the Authority.

It must be admitted that the fundamental and worthwhile purposes of the Authority provided by statute are not of the type that will earn the profits necessary to physically rehabilitate the property and to acquire equipment needed for full usage of these facilities.

The Authority in its annual report lists the following items as "most vital and essential", and this Department as a result of this audit agrees thoroughly with their conclusions:

1. Plumbing	\$ 20,000 00
2. Renovation of Dressing Rooms	3,000 00
3. Rewiring	5,000 00
4. Elimination of Windows	8,000 00
5. Replacement of Floors and Piping	50,000 00
6. Painting	6,000 00
7. Roof Repairs	1,000 00
8. Engine Room Improvements	2,500 00
9. Basketball Floor and Track	16,000 00
Total	\$111,500 00

In view of the substantial amount of public funds already invested in this project, if further funds in the amounts above listed were made available to this Authority, the financial stability of the Authority would be insured and the facilities now available for public use could be extended to include other activities only contemplated in the legislation.

With due consideration given to the condition of the property when acquired and the further fact that the Authority was allowed very little time for preparation for the 1954 season, the Authority shows a net income for the period from July 17, 1953 to February 28, 1954 of \$14,078.01, but, at the same time, it must be pointed out that this period does include the four most profitable months of an average season; viz., November through February.

In spite of the many handicaps involved, the present Authority has made commendable progress and has provided economical, constructive and progressive management.

**Accounts Receivable:** The accounts receivable on the date of audit consisted of \$6,519.80 from schools and colleges, and \$348.03 from others. It was noted that no provision for bad accounts has been made because in the opinion of the administrative staff all accounts are collectible.

In this connection it is suggested that more care should be taken in the methods of postings to the subsidiary accounts receivable ledger. It is also recommended that a trial balance be taken of this ledger regularly and that it be reconciled with the general ledger control account.

**Insurance Coverage:** In addition to the fidelity bonds of the Authority members and treasurer, the following insurance coverage was also available:

<u>Coverage</u>	<u>Amount</u>
General - Automobile Liability	\$ 50,000 00
Robbery and Burglary	5,000 00
Fire	625,000 00
Workmen's Compensation	As Required by Statute

The fire insurance policy was not examined. It is understood, however, that this policy had been transferred from the previous owner and will expire in April 1954.

**Employees' Taxes Withheld and Accrued Pay Roll Taxes:** The balance in the Employees' Taxes Withheld account in the amount of \$5,717.89 represents Federal income taxes and Social Security taxes withheld from employees during the period July 17, 1953 to February 28, 1954. The balance in the Accrued Pay Roll Taxes account in the amount of \$719.97 represents the employer's share of the Federal Social Security taxes for the same period.

Normally these funds would have been forwarded to the District Director of Internal Revenue at least quarterly. The delay however in forwarding these funds was because it is understood that it had not been determined whether the employees were to be covered by the Federal Insurance Contribution Act for this entire period. It is understood that an oral ruling has been obtained and the employees come within the provisions of this act, effective January 1, 1954. No written confirmation of this fact was available, however. Inasmuch as the element of doubt only concerned Social Security taxes, no reason can be seen why the income taxes withheld had not been forwarded to the Federal authorities, pending the determination of the employees' Social Security status.

In this connection it was noted that the taxes withheld to December 31, 1953 were remitted to the Director of Internal Revenue while this audit was in progress.

**Disbursements from Cash Receipts:** It was noted that substantial currency disbursements from cash receipts were made averaging \$2,400.00 per month during the three months ending February 28, 1954. These disbursements consisted in the main of payments to hockey officials and extra police guards.

It is recommended that this practice be discontinued and that all future payments be made by check. It is further suggested that cash receipts should be deposited intact as often as is practicable.

It is understood that these disbursements are made occasionally because it is impractical to obtain the counter-signature of a member of the Authority. It is therefore suggested that the general manager be given an advance cash fund, which should be



deposited and from it checks for payments should be drawn which are presently being made from cash receipts. This account would, of course, only be used for the purposes indicated.

**Bonding of Members of the Authority and Employees:** At the present time members and the treasurer of the Authority are bonded in conformance with statute. It was, however, noted that certain employees in the business office, ticket office and the concessions department are not bonded. As these employees frequently handle substantial amounts of cash, it is advised that fidelity bond protection be obtained for them.

**General Recommendations:** It is noted that certain records could be maintained or improved so that more effective operations and controls would be provided. These matters were discussed with the general manager during the course of this audit, and include the following:

1. Minutes of all meetings of the Authority should be maintained as part of the permanent records and be approved by the Authority.
2. A daily log of all sports activities, etc., should also be maintained. This record could be used as a checking medium to insure that all income accruable has been accounted for.
3. All guarantees and percentage arrangements with promoters, schools, colleges and hockey leagues should be set forth in writing. These instruments could be made available for audit control purposes.
4. A change in the manner and policy of selling tickets through the schools should be effected, as adequate control in this direction appears to be lacking.

**Fiscal Year:** It is suggested that some thought be given to setting up the affairs of this Authority on a fiscal year, possibly to end on June 30. By this arrangement a complete activity cycle will be included within a twelve month period. At the present time, the records are arranged on a calendar year basis, which forces parts of one season's activities to be represented for accounting purposes in two separate years.

#### DIVISION OF THE BLIND

REPORT NO. 54-109

**Fall River Workshop:** It was noted that bank deposits are now being made three and four times a month apparently in compliance with a recommendation made in this connection in the previous audit report. It was further noted that a safe has been installed in this workshop.

**Accounts Receivable - Overdue Accounts:** On the date of audit the outstanding overdue accounts receivable for the years 1952 and previous totaled \$1,066.83. In addition, there was \$5,141.79 outstanding for 1953 charges of which a substantial part has been due for as long as nine months.

While this audit was in progress \$1,283.96 was collected on the foregoing outstanding accounts. It is also understood that the Division has completed arrangements to collect on a periodic basis from certain of the delinquent accounts. It was further noted that no credit will be permitted to known slow payers and henceforth all business with them will be done on a cash basis.

It is suggested that all other delinquent accounts together with those which are not being liquidated in accordance with a prior agreement be turned over to the Attorney General for collection.

**Suspense Accounts Receivable:** During this audit period active accounts receivable in the amount of \$2,535.38 were transferred to the "Suspense", a section of the accounts receivable and were referred to the Attorney General. During this period a total of \$1,623.96 of "Suspense" accounts were transferred back to the active accounts receivable ledger. Of this latter amount, \$1,406.86 was charged off as uncollectible by authority of the Attorney General; goods returned for credit amounted to \$119.16 and cash received was only \$97.94. In addition the Attorney General authorized the charge off of an active account which had never been transferred to the "Suspense" section.

**Federal Participation - General Administration:** At present and in accordance with the approved plan of Federal participation in the expenses for "General Administration, Aid to the Blind", one-half of 5% of the salaries of the personnel in the bookkeeping department is reimbursed by the Federal Government. Of the expenses for rent and light one-half of 32% is paid by the Federal Government. One-half of 50% of the telephone expense is reimbursed to the State. The salaries of other members of the personnel are reimbursed on the basis of 50% of the following percentages:

Director	22%
Secretary to the Director	22%
Telephone Operator	50%
Junior Clerk	22%
Junior Clerk and Stenographer	22%
Assistant Supervisor of the Blind	100%
Senior Workers with the Blind (9)	100%
Senior Worker with the Blind	Variable (50% to 75%)
Guides to Blind Workers (5)	100%
Senior Statistical Clerk	100%
Junior Clerks and Stenographers (2)	100%
Junior Clerk and Typist	10%
Worker with the Blind	95%

**Cambridge Industries - Inventories:** A physical inventory of materials and supplies was taken on the date of audit. The raw materials indicated a net overage of approximately \$200.00 when compared with the book inventory. The finished good inventory indicated a net shortage of 41 dozen brooms and 15 dozen mops. In connection with this broom shortage the following was noted:

Under the present system a count of brooms is taken after the manufacturing process known as the "first winding", and is entered in the stock ledger. However, after this figure is entered spoilage frequently develops in the remaining manufacturing operations. Often the inspection department also throws out poor work and the handles and part of the broom corn is salvaged. The "spoilage and throw out" items are not submitted to the ledger clerk for entry nor are brooms which are used for janitorial work. Such omissions are of course partly responsible for the inventory differences.

It is further mentioned that only one physical inventory was taken by this Division since the previous audit. No adjustments of differences between the stock books and physical inventories were made as a result of this inventory which was taken as of June 30, 1953. The book figures at that time were simply disregarded and the physical inventory balances thereupon entered on the new stock ledger.

It is recommended that the figures for finished goods furnished to the stock ledger clerk indicate only the count of goods put into the stock room after final inspection. It is also recommended that variances in physical and book inventories be adjusted in the manner outlined in the Comptroller's Accounting Manual. Brooms used by the janitor, if taken from finished goods, should be charged out in the proper manner.

**Credit Memos and Adjustments:** It was noted that credit memos and adjustments are now being signed by an authorized employee in accordance with a recommendation in the previous audit report.

**General:** A report of a Special Commission established to "Make a Study of Certain Matters Relating to the Blind" was issued in December 1950 as House Document No. 1951.

As a result of this report the legislature enacted Chapter 676 on September 11, 1951 amending certain sections of Chapter 15 of the General Laws. Briefly, the new law establishes within the Division of the Blind five Bureaus as follows:

- Bureau of Medical Care
- Bureau of Individual Services
- Bureau of Rehabilitation
- Bureau of Industrial Aid and Workshops
- Bureau of Research



The new law also makes the Director "the executive and administrative head of the Division". It also states that "the advisory board shall exercise advisory powers only". Chapter 673 also enacted on September 11, 1951 but containing an emergency preamble, amends Chapter 69 of the General Laws. This Act defines the duties of the Director and the new Bureaus.

On the date of audit the reorganization, in accordance with Chapter 676 of the Acts of 1951, was not completed.

## DEPARTMENT OF NATURAL RESOURCES

REPORT NO. 54-110

**Pay Rolls:** It was noted that since July 1, 1952 all pay rolls have been paid on a monthly basis by the State Treasurer.

**Bonded Positions:** At present there are only 4 employees handling State cash who are bonded, but there are several others who also handle cash but for whom no bonds have been obtained. It was noted that budget requests for funds to bond such employees in the recreation areas has been denied in previous years. It is nevertheless urged that all employees handling State cash be bonded.

**Federal Grants:** Certain percentages of amounts expended for Farm Forestry Projects, Co-operative Distribution of Forest Planting Stock, and Prevention of Forest Fires are reimbursed by United States Federal Grants. It was noted that all such grants by the Federal Government had been received and properly allocated.

**Parks and Recreation - Accounts Receivable:** On March 15, 1954 the suspense accounts receivable totaled \$407.95 and during the audit period accounts totaling \$170.75 had been referred to the Attorney General for collection. It was also noted that \$65.20 was credited to the control account during the same period. It is suggested that still another account amounting to \$324.00 for house rent which had been billed to a tenant, now deceased, should be referred to the Attorney General for disposition.

**Bid and Specification Deposits:** The following indicates those deposits held in the office safe on the date of audit:

Certified Checks	\$4,130 00
Other Checks	145 00
Cash	80 00
Total	<u>\$4,355 00</u>

It was noted that the records for handling bid and specification deposits have not yet been installed, and it is therefore suggested that the Comptroller's Bureau be contacted in this regard. At the present time only a loose-leaf record is available but even this folio was not being currently maintained.

It was also noted that a \$5.00 cash deposit could not be properly identified as of the date of audit.

**Tree Order - Advance Deposit:** At the date of audit a check for \$44.00 dated June 10, 1953 was noted as being held in the office of the Division of Forest and Parks. This check represented an advance payment for a tree order of the Nantucket Soil Conservation District, delivery of which was postponed to spring of 1954. The bookkeeper was advised to deposit this check and it was also suggested that all checks and cash received as income be deposited when received.

**Check Deposit Held in Escrow:** It was noted that a check for \$2,318.88 had been deposited with the State Treasurer on September 4, 1953 to be held in escrow pending the adjudication of a law case with a fish company. In this connection a decree has been entered with the Salem Court April 27, 1954 forfeiting this amount to the Commonwealth. It will be credited to the account for Law Enforcement Income, Fines and Penalties.

**Mink Certificates - Renewals:** It was noted that twenty-five 1953 mink certificates had not been renewed for the year 1954 to March 15, 1954. A list of the names and addresses of those concerned was turned over to the Chief Law Enforcement Officer of this Department.

**Pay Rolls - Weekly Reports and Time Records:** A test check of weekly reports and time records of personnel in the field indicated one report missing and two reports not completed. As these reports are supposedly used for pay roll purposes it is suggested that they be filed weekly, and include complete time records for all persons employed within that period. It is further suggested that these reports be signed by someone in authority and also be approved by whoever is responsible for approving pay roll payments.

**Pay Roll Overpayment:** It was noted that a pay roll overpayment to a former employee of \$28.27 was made in September 1953. The records further indicate that a check for \$11.04 made out to him was being held in the accounting office pending the collection of the overpayment. It is urged that steps be taken to adjust this entire transaction before the close of this fiscal year.

**Classified Pay Roll - Daily Time Records:** It was noted that daily time records were not being maintained. Individual card records of sick leave, vacation time and days absent are however available.

**Gypsy Moth Control Program:** Chapter 148 of the Acts of 1954 authorizes the Commissioner, with the approval of the Board, to institute a program of gypsy and brown tail moth control effective February 24, 1954.

The cost of the program including the interest on any notes issued shall be apportioned on the basis of thirty per cent to the Commonwealth and seventy per cent to the cities and towns in the region or regions established under the authority and direction of the Commissioner.

To meet the expenditures necessary in carrying out the provisions of the act, the State Treasurer shall, upon request of the Governor and Council, borrow against the credit of the Commonwealth, from time to time, such amounts as may be required in anticipation of the receipt from cities and towns of their cost of the program, but not to exceed, in the aggregate, the sum of \$1,575,000.00, and may also issue from time to time, notes of the Commonwealth bearing interest payable at such times and at such rates as shall be fixed by the State Treasurer.

**Capital Outlay Loans:** Included in the 1949 appropriations statute was an amount of \$100,000.00 for shellfish purification plants. No expenditures have been made from this item to the date of audit. The 1953 statute also provided \$500,000.00 for the improvement of certain recreation areas within the control of the Department.

**Repairs to Standish Monument:** The previous audit report stated that this monument was closed for repairs during the 1952 season. It was noted that the repairs were completed in sufficient time to permit the monument to be opened to the public during the latter part of the 1953 recreational season.

**Salisbury Beach Reservation:** Chapter 666 of the Acts of 1953 which created a Division of Beaches within the State Department of Public Works effective July 3, 1953 also transferred the control of Salisbury Beach to that Department. However, it was noted that the Department of Natural Resources handled the income received at that reservation during the 1953 recreational season.

**State Recreation Areas Fund:** It was noted that a memorandum from the State Comptroller to the Commissioner of Administration and Finance under date of March 3, 1954 proposed that the General Court amend Chapter 132A of the General Laws, Tercenary Edition, by establishing the "State Recreation Areas Fund" to replace the "Parks and Salisbury Beach Reservation Fund".

**Coin Lock and Binocular Machines - Income Agreements:** It was noted that agreements with companies sponsoring these machines had expired previous to the date of audit. It is suggested that new agreements be negotiated to include the current situation.

**Division of Forests and Parks - Concessions:** It was noted that payments were overdue from four concessions at the following locations:



<u>Location</u>	<u>Due Date</u>	<u>Amount Unpaid</u>
D. A. R. Forest	July 1, 1953	\$20 00
Windsor State Forest	July 1, 1953	10 00
Granville State Forest	May 30, 1953	25 00
Whitehall State Park	April 1, 1952	10 00
Whitehall State Park	April 1, 1953	10 00
Total		<u>\$75 00</u>

It is suggested that these amounts be recorded in the accounts receivable control account of the Department. If it develops that these accounts cannot be collected they should be turned over to the Attorney General for disposition.

**Rent of Houses:** The potential rental income from properties within the forest areas totals \$170.50 per month and range respectively from \$2.00 to \$20.00 per month. The Bureau of Recreation within the Division of Forests and Parks lists twelve properties in four State Parks of which only eight are occupied. In these instances the rental charges of five houses range from \$10.00 to \$26.50 monthly, one is occupied only in the Summer months at \$44.50 per month, and the two other occupants are charged no rent because of their required duties. Four units were vacant on the date of audit.

The forest and park areas were not visited during the course of the audit.

It is also urged that all rentals should be collected monthly in advance.

**Marine Fisheries:** The following comment appeared in the audit report of the previous year:

"Applications for Weirs, Pound Nets or Fish Traps, - construction and maintenance which require the prior approval of Local Authorities, Department of Public Works and United States Army Engineers and applications for Bed Certificate as to the sanitary condition of certain tidal waters and flats are received at this Division. The applications carry no fee even though considerable detail work by the Division is necessary before issuance of the permits. It is suggested that consideration be given to the advisability of charging a fee for these services."

Inasmuch as no change has been effected with respect to the foregoing, attention is again directed to the matter.

**Parks and Salisbury Beach Reservation Fund:** On June 30, 1952 the accumulated surplus in this fund totaled \$129,055.57, and on June 30, 1953 it totaled \$92,241.28. As previously mentioned, Salisbury Beach Reservation has been transferred to the Division of Beaches in the Department of Public Works.

#### DIVISION OF FISHERIES AND GAME

REPORT NO. 54-111

**Consultant Services:** Within this agency there is a growing abuse in the use of consultants as is evidenced by expenditures for such purposes in the last three fiscal years:

	<u>Cost</u>
1951	\$21,413 66
1952	36,360 25
1953	63,633 01

An examination of the title and purposes for which these consultants are ostensibly hired, indicates that appointments as consultants in most cases could have been made only to avoid civil service and veteran preference statutes. Certainly little justification exists for the hiring of laborers, conservation helpers and other similar civil service classifications as consultants, in fact, seven classifications used by this agency in the employment of consultants are normal civil service titles. During the period under audit and immediately thereafter, there were forty-eight individuals so engaged by this department who were paid fees ranging from \$10.00 to \$30.00 a day and at hourly rates varying between \$1.50 and \$5.00.

The written agreements under which these consultants are hired contain only the signature of the consultant involved and bear no approval by any officials or employee of the Commonwealth, and while in most instances the agreement specified the date upon which the services are to start they make no mention of any date upon which services will terminate. We find that in some instances the traveling expenses and meals of certain consultants are paid by the Commonwealth in addition to the specified fee even though no such payments are provided in the original agreement.

It also appears that in some instances consultants have been supplied a State car for their own use although again such an extra is not authorized in their original agreement. In this connection, since these consultants are not State employees, should one of them be involved in an accident while driving a State car, a legal problem would certainly arise.

It is recommended:

- I That the form of contractual agreement used in the hiring of consultants be approved by the Attorney-General and that it include the signatures of the consultant concerned and the department head.
- II That the fee paid consultants should be specified to include expenses and that in no event should a consultant be allowed to submit separate vouchers for his expenses.
- III That under no circumstances should a consultant be allowed to operate a State owned vehicle.
- IV That hourly records of work performed by consultants be kept by a Department employee who will be authorized to approve payment of invoices rendered by the consultants.

Accounts Receivable: Previous audit reports stated that the sum of \$31.25 was due from the Town of Mashpee, as follows:

Sales of 1949 Licenses	\$25 25
Sales of 1950 Licenses	6 00
Total	<u>\$31 25</u>

It was noted that this item was turned over to the Attorney-General's office for collection in September 1950, and efforts by the Attorney-General's office to locate the clerk responsible for the above licenses have apparently been unsuccessful to date.

It was also noted that \$13.50 is due from the Town of Leicester because of under-payments of \$6.00 for two 1953 Series No. 2 Resident Hunting Licenses and \$7.50 for one 1953 Series No. 9 Non-Resident Fishing License. It was noted that the town clerk has been notified and payment will be made.

Control Accounts Receivable: It was again noted that no Control Accounts Receivable account is carried in the general ledger, the reason apparently being that practically all the income is on a cash basis. It is nevertheless suggested that the Comptroller's Bureau be requested to provide such an account.

1953 Series No. 2 Hunting Licenses: It was noted that the inventory of license forms which was taken at the time of the previous audit indicated that numbers 94051 to 94250 of the No. 2 Hunting Licenses series were missing. These licenses were however accounted for during the current audit.

1953 Series No. 3 Resident Citizens Sporting Licenses: It was also noted that License numbers 238726 to 238750 of this series were not accounted for in connection with the audit of the 1953 Licenses. It was learned from the clerk in charge that these particular ones had never been received from the printer.

Refunds for Overpayments: It was also noted that refunds are due to the municipalities of Holyoke, Randolph and Upton of \$3.25 each, because of overpayments on Series No. 1 licenses for 1953.



Wildlife Co-operative Research Project Contribution: Previous audit reports have stated in this connection:

"An amount of \$6,000.00 was appropriated to the Division for the fiscal year ended June 30, 1950, but the account was not included in the records of the Division for that year. It was learned that the Federal Government grants \$6,000.00 for this purpose and the University of Massachusetts also receives an appropriation of \$6,000.00 for this project. The records are maintained, however, at the University of Massachusetts in Amherst. It is suggested that all future appropriations for these purposes be requested by the University of Massachusetts, as this Division apparently has no control over the expenditures of these funds."

It was again noted that the situation remained unchanged for the fiscal year ended June 30, 1953.

Inland Fisheries and Game Fund: The balance in the Surplus Account of this fund on June 30, 1953, totaled \$563,125.39. The transactions in this fund are, however, not reflected on the books of the Division.

Printing and Distribution of Certain Licenses: The previous audit report contained the following:

"In connection with the examination of unused returned licenses by the various cities and towns it was noted that several types were being returned as complete unsold books. This situation applied generally to those printed and distributed in books of ten each. Because of the unnecessary costs involved this matter was discussed with the Director of the Division and he indicated that he would review the practicability of reducing the number of licenses in each book from 10 to 5. In this manner the cost of printing and handling should be appreciably reduced."

No change has been made in the number of licenses per book.

#### STATE TEACHERS COLLEGE AT NORTH ADAMS

REPORT NO. 54-112

Previous Audit Report: It was noted that certain suggestions which were made in the previous audit report have been acted upon as follows:

- a. Accounts Receivable - Overdue accounts receivable were sent to the Attorney General for collection.
- b. Bonding - The position of senior bookkeeper has been bonded.
- c. Meal Tickets - Different colored meal tickets are now sold to employees.

Time Cards: It was noted that daily time cards are not being maintained for all employees. It is suggested that such a time record be available for all employees at this college.

#### STATE TEACHERS COLLEGE AT WORCESTER

REPORT NO. 54-113

Income from Transcript Fees not Properly Entered in Cash Book: Subsequent to the balancing of cash on date of audit, it was found that there was cash totaling \$20.50 in the office, representing 21 fees for transcripts which had been received during the period from December 1953 to March 1954. This money was entered in the cash book and deposited in the bank while this examination was in progress.

In this connection attention is called to Chapter 30, Section 27 of the Tercentenary Edition of the General Laws, which reads as follows:

"Except as otherwise expressly provided, all fees or other money received on account of the commonwealth shall be paid daily into the treasury thereof, but if in the opinion of the commission on administration and finance and the state treasurer the interests of the

commonwealth require, payments may be made weekly in accordance with such rules and regulations as the state treasurer may prescribe."

It is, therefore, recommended that all income, regardless of the amount, be entered and deposited currently.

**Out-of-State Tuition:** It was noted that a student currently attending this college, who is now paying the in-state tuition rate of \$50.00 per semester (2nd semester 1953-54 school year), had originally paid the out-of-state rate for two and one-half years. The reason advanced why she is now paying the in-state rate is that when she recently reached the age of twenty-one she registered to vote in Worcester, Massachusetts. At the time of billing for the second semester of the current school year she presented a certificate from the registrar of voters in Worcester, indicating her to be a registered voter in that City, and the rate was thereupon changed based upon this certificate.

The charges to her account were made as follows, since she has been a student at this school:

1951-1952 Charged two semesters as out-of-state - Freshman  
 1952-1953 Charged two semesters as out-of-state - Freshman (Repeat)  
 1953-1954 First semester (out-of-state), second semester (in-state) -  
 Sophomore

Apparently this student's account was reviewed at the time of a previous audit. At that time she had been charged as an in-state student and when it was noted that she came from Connecticut, when her enrollment application was checked for residence, she was charged and paid the out-of-state rate for two and one-half semesters.

This matter was discussed with the College President and it was learned that an adjustment will be made of the charge so that she will pay the out-of-state fee.

It is suggested that steps be taken to direct this matter to the attention of the Department of Education for advice so that a directive may be issued in order to cope with such incidents as they develop.

**Income from Cafeteria:** In this connection previous audit reports have stated as follows:

"Although a cafeteria is operated by a private individual in the college building, no income from this source was noted on the books of the college."

It was again noted that no income from this source appeared on the records of the college during the current audit period.

\* **Income from Vending Machine:** The previous audit report further stated in this regard as follows:

"There is a Coca-Cola machine located in the cafeteria of the college building. It was learned, however, that the income from it is given to the Students' Activities Fund."

Apparently this function is still being handled in this manner indicating that no income to the Commonwealth from this source was accrued during the current audit period.

#### RUTLAND STATE SANATORIUM

REPORT NO. 54-114

**Land Conveyed:** It was noted that the farm land and certain buildings owned by this institution were conveyed during the audit period by the Department of Public Health under authority of Chapter 428 of the Acts of 1951. For this property the sum of \$33,110.00 was realized.

#### DEPARTMENT OF PUBLIC WELFARE

##### GENERAL DEPARTMENT

REPORT NO. 54-116

**Old Age Assistance - State Share:** For the fiscal year ending June 30, 1954 an appropriation of \$35,005,000.00 for this purpose was granted. The status of this appropriation on March 31, 1954 follows:



OLD AGE ASSISTANCE - STATE APPROPRIATIONS

July 1, 1953 to March 31, 1954

Appropriation	\$35,005,000 00
Allotments	33,405,000 00
Balance Unallotted	<u>\$1,600,000 00</u>

Allotments

July 31, 1953	\$19,800,000 00
October 31, 1953	12,000,000 00
March 31, 1954	1,605,000 00
	<u>\$33,405,000 00</u>

Expenditures

<u>Paid to</u>	<u>Paid During Month of</u>	<u>Amount Paid</u>	<u>Period Covered by Payment</u>
Various Cities and Towns Except Boston	July 1953	\$ 8,929,526 55	Feb., Mar., Apr., May 1953
Overseers of Public Welfare, Boston	July 1953	545,000 00	March 1953 Estimate
Overseers of Public Welfare Boston	Aug. 1953	96,197 30	Nov., Dec. 1952, Jan., Feb. 1953 (adjustments)
Various Cities and Towns Except Boston	Aug. 1953	2,296,774 35	June 1953
Overseers of Public Welfare, Boston	Aug. 1953	580,000 00	April 1953 Estimate
Welfare Districts	Aug. 1953	9,501 58	Second Quarter 1953
Various Cities and Towns Except Boston	Sept. 1953	2,293,900 63	July 1953
Overseers of Public Welfare, Boston	Sept. 1953	24,066 32	Mar., Apr. 1953 (Adjustments)
Overseers of Public Welfare, Boston	Oct. 1953	327,436 75	May 1953 Estimate
Various Cities and Towns Except Boston	Oct. 1953	2,217,175 53	August 1953
Overseers of Public Welfare, Boston	Oct. 1953	540,000 00	June 1953 Estimate
Various Cities and Towns Except Boston	Nov. 1953	2,096,050 98	September 1953
Welfare Districts	Nov. 1953	9,581 58	Third Quarter 1953
Overseers of Public Welfare, Boston	Dec. 1953	2,210,000 00	July, Aug., Sept., Oct., 1953 Estimate
Various Cities and Towns Except Boston	Dec. 1953	2,240,782 82	October 1953
Overseers of Public Welfare, Boston	Dec. 1953	25,439 68	May, June 1953 (Adjustments)
Various Cities and Towns Except Boston	Jan. 1954	2,069,471 43	November 1953
Overseers of Public Welfare, Boston	Jan. 1954	33,264 90	July, Aug. 1953 (Adjustments)
Various Cities and Towns Except Boston	Feb. 1954	2,255,517 15	December 1953
Overseers of Public Welfare, Boston	Feb. 1954	1,180,000 00	Nov., Dec. 1953 Estimate
Welfare Districts	Feb. 1954	11,319 77	Fourth Quarter 1953

Overseers of Public Welfare, Boston	Mar. 1954	\$ 133,978 65	Sept., Oct., Nov., Dec. 1953 (Adjustments)
Various Cities and Towns Except Boston	Mar. 1954	2,260,581 94	January 1954
Total Expenditures		<u>\$32,385,567 91</u>	
Allotment Balance, March 31, 1954		<u>\$1,019,432 09</u>	
Total Unexpended Balance, March 31, 1954		<u>\$2,619,432 09</u>	

It will be noted that the Total Unexpended Balance in this appropriation as of March 31, 1954 was \$2,619,432.09. In this connection it was noted that the City of Boston on March 31, 1954 had been paid through December 1953, including all adjustments and the other cities and towns were paid through January 1954.

During the same period an appropriation of \$120,000.00 was granted for services rendered to recipients of Old Age Assistance in the Tewksbury State Hospital, from which there was disbursed \$65,012.78, showing an unexpended balance of \$54,987.22.

It would further appear that by June 30, 1954, there will be a potential liability of approximately \$12,000,000.00 in this fund provided the unexpended balance of approximately \$2,619,432.09 can be used. At present such liabilities are not recorded in the general ledger of this department and it is again suggested that the Comptroller's Bureau be requested to provide for the recording of such liabilities in its general ledger so that the true financial status will be shown.

In this connection it was noted that a letter dated January 31, 1951 from the Comptroller's Bureau to the Department of Public Welfare included the following paragraph:

"Old Age Assistance - State Share: The Auditor suggested that the Comptroller be requested to provide for the recording in the general ledger of audited and approved liabilities. In accordance with the provisions of Chapter 29, Section 26 of the General Laws, as amended, an expenditure in excess of an appropriation cannot impose legal liability upon the Commonwealth."

Said Section 26, as amended by Section 1 of Chapter 636 of the Acts of 1947, reads as follows:

"Section 1. Chapter 29 of the General Laws is hereby amended by striking out section 26, as most recently amended by section 13 of chapter 242 of the acts of 1945, and inserting in place thereof the following section:- Section 26. Expenses of offices and departments for compensation of officers, members and employees and for other purposes shall not exceed the appropriations made therefor by the general court or the allotments made therefor by the governor. No obligation incurred by any officer or servant of the commonwealth for any purpose in excess of the appropriation or allotment for such purpose for the office, department or institution which he represents, shall impose any liability upon the commonwealth."

With respect to the foregoing, it certainly does not appear that said Section 26 prohibits including in the general ledger accounts these liabilities. Obviously to omit such information results in a distorted picture of the financial condition of the Commonwealth.

Aid to Dependent Children - State Share: For the fiscal year ending June 30, 1954 an appropriation of \$6,012,205.30 was granted. A statement showing the status of this appropriation on March 31, 1954 follows:

#### AID TO DEPENDENT CHILDREN - STATE SHARE

July 1, 1953 to March 31, 1954

Appropriation  
Allotments

\$6,012,205 30  
6,012,205 30



Appropriation Balance, March 31, 1954

-

Allotments

July 1, 1953	\$5,900,000 00
July 3, 1953	1,875 90
October 8, 1953	110,329 40
	<u>\$6,012,205 30</u>

Expenditures

<u>Paid to</u>	<u>Paid During Month of</u>	<u>Amount Paid</u>	<u>Period Covered by Payment</u>
Overseers of Public Welfare, Boston	July 1953	\$1,585,842 37	July, Dec. 1952, Jan., March 1953
Various Cities and Towns Except Boston	July 1953	3,548,395 76	July, Aug., Sept., Oct., Nov. 1952, Jan., Feb., Mar., Apr., May 1953
Various Cities and Towns Except Boston	July 1953	319,408 83	June 1953
Welfare Districts	Aug. 1953	1,853 33	Second Quarter 1953
Overseers of Public Welfare, Boston	Sept. 1953	354,900 66	Apr., May 1953
Overseers of Public Welfare, Boston	Nov. 1953	170,599 14	June 1953
Welfare Districts	Nov. 1953	1,982 97	Third Quarter 1953
Welfare Districts	Feb. 1954	2,376 73	Fourth Quarter 1953
Refunds		(31 99)	Fourth Quarter 1953
		<u>\$5,985,327 80</u>	
Total Unexpended Balance, March 31, 1954		<u>\$26,877 50</u>	

It was noted that the Total Unexpended Balance in this appropriation on March 31, 1954 was \$26,877.50. On March 31, 1954, the City of Boston and the other cities and towns had been paid through June 1953. It would appear that by June 30, 1954 there will be a potential liability in this account of approximately \$6,000,000.00. As stated earlier in this report, such liabilities are not presently being recorded in the Department general ledger and it is suggested that the Comptroller's Bureau also be requested to provide for setting them up on the accounts.

Old Age Assistance and Aid to Dependent Children - State Share - Payments to Cities and Towns: During the fiscal year ended June 30, 1953 disbursements of \$39,426,848.70 were made to cities and towns as reimbursements for State share of payments by local welfare agencies for "Old Age Assistance". During the same period \$6,107,909.26 was disbursed to cities and towns as reimbursements for State share of expenditures for "Aid to Dependent Children". The disbursements by the Department were for various periods up to June 30, 1953. In this connection, Schedules No. XVII and XVIII appended to this report show the payments made during this fiscal year, together with the periods covered by the respective payments.

Assistance for Totally Disabled Persons: This assistance was authorized by Chapter 741 of the Acts of 1951, effective November 1, 1951 and provides for local, State and Federal participation.

Federal participation is available under Title XIV - Aid to Permanently and Totally Disabled as added by the Social Security Act Amendment of 1950.

The Massachusetts State Plan for Aid to Persons Permanently and Totally Disabled was submitted on December 28, 1951 to the Federal Security Agency, Boston, Massachusetts. Written approval was received from the Social Security Administration in Washington, and the Department was notified by letter from the State Treasurer May 21, 1952 of receipt of U. S. Treasury checks totaling \$1,220,846.26 for three quarters

ended June 30, 1952.

For the fiscal year ending June 30, 1954 an appropriation (State) of \$2,500,000.00 was granted and the balance of \$1,007,226.05 was brought forward from 1953. Of the total \$3,507,226.05, the amount of \$188,917.10 was allotted to cover cases at the Tewksbury State Hospital. It would appear that by June 30, 1954, there will be a potential liability in this account of approximately \$2,000,000.00. As stated earlier in this report, such liabilities are not presently being recorded in the Department's general ledger and it is again suggested that the Comptroller's Bureau be requested to provide for this establishment.

Assistance for Burial, Contagious Diseases, Sick and Indigent Persons, Temporary Aid and Transportation: For the fiscal year ending June 30, 1954, an appropriation of \$2,450,000.00 was granted and a balance of \$833,597.83 was brought forward from the 1953 fiscal year. During the period ending March 31, 1954, disbursements of \$2,505,002.92 were made to cities and towns as reimbursements for payments by local welfare agencies and the unexpended balance in this appropriation on that date was \$778,594.93. It is estimated that an additional \$3,500,000.00 will be needed by June 30, 1954 to pay current liabilities. As stated earlier in this report such liabilities are not presently being recorded in the Department's general ledger and it is again suggested that the Comptroller's Bureau also be requested to provide for setting them up on the accounts.

Advances to Employees: As of the date of audit it was noted that there were 101 advances to employees totaling \$8,584.30. Verification notices were mailed to each of them and only 87 were returned as being correct. The remaining 14 advances with balances of \$1,400.00 were not so verified.

Canteen Fund: A savings bank account was opened on January 31, 1952 for the Department Canteen Fund account, in which there was a balance of \$739.53 on the date of audit. During this audit period receipts totaled \$346.32, and there were no withdrawals. The receipts were from the following sources:

Pay Station Commissions	\$147 28
Milk, Coffee, Candy and Cigarette Commissions	78 14
Coca Cola Commissions	57 60
Other Sales	61 20
Interest on Savings Account	2 10
	<u>\$346 32</u>

As no control account for this fund is carried in the general ledger, it is again suggested that one be established. In this connection it was further noted that telephone commissions as indicated were formerly turned over to the State Treasurer as Departmental Income. It is also mentioned that it was not possible to verify all other income as no substantiating detail appeared to be available for audit purposes.

Commodities Distribution Division: Attention is directed to the fact that the Commodities Distribution Division was transferred to the Department of Education in accordance with the provisions of Chapter 637, Acts of 1953, and no transactions were recorded on the books of this Department subsequent to July 1, 1953. In October 1953, the balance of \$55,171.77 brought forward from the previous fiscal year was transferred. Four of this Division's employees were removed from the Department's pay roll on June 30, 1953.

Reimbursements for Support of Children by Individuals: In addition to the reimbursements by cities and towns for the support of certain children, the Department is also reimbursed by individuals voluntarily or upon court order.

In the case of a child committed to the care of the Division by court order, the court may order a parent to pay a designated amount for the support of that child. These payments are made by the parent directly to the probation officer of the court which has jurisdiction. The probation officer remits the amount collected to the Division of Child Guardianship.

Referring to these reimbursements, the previous audit reports have stated:



"It is suggested that all districts, including Boston, forward settlement information immediately to the Accounts Section so that billings may be started promptly. It is suggested that a register be maintained, together with a current intake card file, from which information regarding settlements, etc. could be forwarded to the Accounts Section for billing, immediately upon the determination of the proper settlement."

It was understood that the suggested register has not been installed. However, the Accounts Section checks currently with the "intake card file" kept in the Research and Statistics Section of the Division of Child Guardianship.

**Trustee Accounts - Division of Child Guardianship:** Included with these accounts is one termed "Vacation Club, Special and Education", with a balance on March 29, 1954 of \$580.06. This account was formerly called "Vacation Club", but the designation was changed during the current audit period.

**Division of Child Guardianship - Accounts Receivable - Verification Notices Returned with Liability Denied:** Previous audit reports have stated that a verification notice sent to the City of Waltham was returned with liability denied. The previous audit report further stated that Waltham's denial was based on the City's interpretation of Section 2, Chapter 123 of the Tercentenary Edition of the General Laws and that it was understood that an interpretation of this section had been requested from the Attorney General.

Upon inquiry it was learned that to date of this audit, March 29, 1954, no opinion has yet been received from the Attorney General and the situation with respect to this claim remains the same.

Attention is also directed to the fact that a letter from the general agent of the Board of Public Welfare in the City of Somerville, in reply to a verification notice, indicated that no further payment would be made on a balance of \$1,035.56, which appears as open in this Division's Suspense Accounts Receivable ledger.

It was the opinion of the City Solicitor of that City that it is not responsible for the support of the child named in the account, because it is contended that the child is feeble-minded.

This City also denies settlement of two children, for whom a total of \$394.62 is due for support, which appears in the active Accounts Receivable ledger of the Division.

It was further learned from replies to such verification notices mailed in connection with this audit that liabilities were denied by the following cities and towns:

Cambridge	\$4,645 52
Fall River	310 91
Lynn	829 70
New Bedford	782 43
Shirley	347 27
Somerville	1,640 50

It is suggested that these accounts be turned over to the Attorney General for collection, and that they also be transferred to the Suspense Accounts Receivable account.

**Wards' Wages - Division of Child Guardianship:** The practice of billing and collecting from employers of wards was discontinued on October 31, 1951 and wards now handle their own earnings.

**Division of Child Guardianship - Funds of Wards - Whereabouts Unknown:** In accordance with Chapter 618 of the Acts of 1941 unclaimed funds of State wards seven years after becoming of age and who cannot be located should be transferred to the State Treasurer annually by November 30 of each year. There were no accounts transferred to the State Treasurer during this audit period. As of the date of the previous audit, there were nine accounts totaling \$399.98 in this category and during the audit period, accounts of twenty-six wards who were located were paid. As of March 29, 1954, however, there were still accounts belonging to forty wards, the present whereabouts of whom were unknown. During the progress of the audit, a check in the amount of \$1,393.14, which represents the bank accounts of forty wards previously mentioned, was transferred to the State Treasurer.

**Trustee Accounts - Division of Child Guardianship:** Included in the Control account balance as of March 29, 1954 were 154 savings bank accounts totaling \$4,925.18 in the names of former wards not now under the control of the Department. The whereabouts of many of these wards are unknown and it is understood that efforts are being made to ascertain their present locations.

If they cannot be found, it is again suggested that a legal opinion be requested of the Attorney General as to the possibility of the application of the balances to partially pay for support furnished by the Commonwealth.

**Ledger Accounts with Municipalities Account of Division of Public Assistance:** Previous audit reports have stated:

"It is again recommended that each ledger account with a municipality be backed up by a ledger account with each person included in the make-up of the account - at present there are ledger accounts with the municipalities but the detail is shown only on duplicate bills."

In this connection it was again noted that prior to January 1952, the bills rendered to the cities and towns for support of settled cases at the Tewksbury State Hospital were exclusively charges against local general relief. After that date, bills were also rendered the place of settlement for "Old Age Cases" and "Total Disability Cases" at the hospital, such billings being permissive in the first category under Chapter 343 of the Acts of 1950 and in the second category under Chapter 741 of the Acts of 1951, also under Section 10 of Chapter 122 of the General Laws as amended by Chapter 351 of the Acts of 1941.

Beginning in January 1952, billings and detail records relating to the Accounts Receivable due from the cities and towns on these cases were kept in the Social Service section and on the date of audit were not under the supervision of the "Bureau of Accounts". These records now consist of the following:

Duplicate bills for the general relief cases

Billing cards for the Old Age Assistance and "Total Disability Cases"

It was noted that a Raymond Trial Balance Book which was a part of the records was discontinued in December 1952. This folio showed amounts due from several cities and towns analyzed in three categories, but did not show the names of the patients concerned. Because of this arrangement the taking of a detailed trial balance of these accounts became difficult and time consuming.

The audit of these particular accounts was further complicated by the following situations:

1. A trial balance of the City and Town individual ledger cards as of March 29, 1954 indicated a net difference of \$1,307.56. This amount represented aggregate overs of \$1,952.17 and aggregate shorts of \$644.61 and were found in the accounts of twenty-five different cities and towns.

2. Bills supporting accounts which had been turned over to the Attorney General for collection and were the basis for the journal entries by the head bookkeeper were understated by \$158.89. Paid bills, which should have been omitted, were included and unpaid bills in arrears were excluded, resulting in a net difference of \$33.64 between the detailed trial balance and the corresponding Control account. It was suggested that a Suspense card be established for this amount in the General Relief Section of the trial balance.

3. Two bills totaling \$423.57 which were paid in December 1951 and not recorded in the main cash book until February 1952 were transferred to the Suspense Accounts Receivable and turned over to the Attorney General for collection in July 1953.

4. One invoice for \$109.49, which was included in the total transferred to the Suspense Accounts Receivable control account, was not submitted to the head bookkeeper, nor was it sent to the Attorney General for collection.

5. One bill for \$231.04 was removed from the Accounts Receivable Control account, but was not included in the Suspense account nor sent to the Attorney General for collection.



6. Monthly trial balances were recorded on blue ruled sheets and were not dated.
7. Checks and cash were turned over to the Bureau of Accounts without a transmittal letter or a detailed list.
8. No record of cash receipts is kept in detail.
9. Monthly balances are not shown on the City and Town cards.
10. Considerable delay between the time the remittance check is received and the date of entry on the main cash book was noted.
11. The main cash book entries were not used as posting media but are used only for control purposes.
12. The person handling the cash is not bonded.

It is further suggested that a subsidiary cash book be provided. It is also recommended that the deposits be made on a regular receipts voucher, a copy of which should be turned over to the head bookkeeper in the Bureau of Accounts section to be entered in the main cash book. This arrangement would be consistent with the procedure in the Division of Child Guardianship.

It is again urged that the Comptroller's Bureau be requested to review the entire accounting procedure and install such system routines which will provide a better internal control and which may be expeditiously audited.

**Trustee Accounts - Division of Public Assistance:** On the date of audit, there were 66 savings accounts with balances totaling \$8,414.45 carried with the Trustee accounts of this Division. The whereabouts of many of the individuals in whose names the accounts are held have been unknown for several years. During the audit period four such accounts were paid when the rightful owners were located.

It was noted that one such savings account is held in the name of the parent of a child who is presently a ward of the Division of Child Guardianship. It is suggested that if possible, the balance be transferred toward the child's support.

It is further suggested that this Division make a more determined effort to locate all such persons and also to transfer these accounts, which have been held beyond the legal limit, to the State Treasurer.

**Rentals:** An analysis of the annual property rentals listed as being paid by this Department, include the following:

600 Washington Street, Boston	\$70,000 00
107 Front Street, Worcester	7,000 00
232 Main Street, Brockton	4,680 00
46 Amesbury Street, Lawrence	4,500 00
105 Williams Street, New Bedford	2,544 25
95 State Street, Springfield	6,888 00

It was also noted that individual monthly garage rentals for the storage of automobiles used by Department employees varied between \$5.00 and \$20.00.

#### SOLDIERS' HOME IN HOLYOKE

REPORT NO. 54-118

**Cash Shortage:** This audit was initiated as a routine examination of the accounts of this institution on March 30, 1954.

As is the practice of this office, the Treasurer and the Commandant were immediately advised, and the Treasurer was requested to submit all cash and related accounts for the purpose of making customary reconciliations. Later, on the same day, as reconciliation was attempted, the Treasurer acknowledged that a shortage existed in both the State and Patients' Funds, and the accountant in charge of the audit immediately advised the Commandant and the State Auditor's Office of this condition. Subsequently, following a private conversation between the Commandant and the Treasurer, the latter resigned his position. The following day the Commandant was further advised by the First Deputy State Auditor that the matter required administrative action by the Commandant or the Board of Trustees and that the position of the Department of the State Auditor was simply

that the audit would continue until the full amount of defalcation was determined. Following this conversation, the Commandant, on the same date, advised such Trustees as were available of the shortages and the next day notified both bonding companies involved, and the Holyoke representative of the District Attorney of the area.

Subsequently cash receipts and disbursements, together with other available records were checked, and it was finally determined that a cash shortage of \$10,790.38 existed. This shortage was comprised of the following:

From State Funds:		
Sale of Meal Tickets	\$1,935 00	
Sale of Garbage	125 00	
Board of Patients	196 50	
Reimbursements a/c Care and Treatment from Insurance Companies	743 00	\$ 2,999 50
From Patients' Funds		7,790 88
Total		<u>\$10,790 38</u>

It was ascertained that the shortage in the State Funds was covered by making false entries in the State cash book with respect to income having been remitted to the State Treasurer.

It was also noted that the shortage in the Patients' Funds was covered by bringing on erroneous balances to the Patients' Fund check book.

**Advance Funds:** The Advance Funds for the fiscal years of 1953 and 1954 were analyzed. While the 1954 Advance Fund appeared to be in balance, it was noted that for the 1953 fiscal year the funds deposited from the Maintenance Account to the Pay Roll Account did not agree with the pay rolls in the amount of \$60.43. Of this amount, it was noted that \$60.42 was deposited in the Pay Roll Account, and \$.01 in the Maintenance Account.

It is suggested that the necessary adjustments be effected.

It was also noted that funds advanced for petty cash are not recorded as received or disbursed in the State cash book. Steps should be taken to enter these items currently.

**Liability Pay Rolls:** It was noted that a 1953 liability pay roll in the amount of \$275.45 was paid before approval and funds were received. Subsequently, it appeared that the Pay Roll Bank Account had on deposit \$10.67, which represented an underpayment on that liability pay roll. It was further noted that a liability pay roll item for \$.23 was paid from 1954 Advance Funds. When reimbursement was received, this amount was deposited in the Maintenance Bank Account.

It is urged that the indicated errors on the liability pay rolls be adjusted forthwith.

**Pay Roll Bank Reconciliation:** Attention is directed to the fact that the Pay Roll Bank Account had not been reconciled with a bank statement since August 1953. This account was reconciled as of March 30, 1954 in connection with this audit from information available. It is recommended that this bank account be reconciled each month.

**Materials and Supplies:** An inventory of the materials and supplies on hand in the institution storeroom was taken on April 12, 1954. It was noted, however, that all materials in the storeroom are not controlled by stock ledger accounts. In this connection, it was noted that materials and supplies were purchased during the audit period totaling \$86,219.45. Of this amount, however, items totaling only \$25,430.44 were passed through the stock ledgers.

It is recommended that all items of materials and supplies purchased be entered through the stock ledger accounts.

**Personal Telephone Calls:** On the date of audit, there was an amount of cash on hand which represented payment for personal telephone calls made by employees, which had not been recorded. It was noted, however, that the federal tax had not been collected for the respective calls. It is suggested that the reimbursement for such telephone calls be handled properly.

**Other Funds:** The disbursements of cash from Other Funds could not be completely verified because of the lack of substantiating detail. It is recommended that invoices for all disbursements from these funds be obtained so that they may be available for audit purposes.



**Quarters Register:** The room charges for employees quartered at this institution which appear as pay roll deductions could not be verified. It is recommended that a quarters register as prescribed by the Comptroller's Bureau be installed and maintained.

## MASSACHUSETTS SCHOOL OF ART

REPORT NO. 54-119

**Art School Associates, Inc.:** It was noted that the records of this corporation were not on a current basis on the date of this audit. Because of this, and the fact that it was not practical to take an inventory of the merchandise for sale at that time, no audit could be made of this activity.

In this connection, attention is directed to the fact that the past several audit reports have referred to the fact that these records were not currently or properly maintained.

It was further learned that while this audit was in progress arrangements were completed to engage an accountant to bring these records to a current basis. It is further understood that he will also make an audit of this corporation at the close of this school year. It is hoped that henceforth this situation will be completely controlled.

**Cash Receipts and Disbursements:** It was noted that payments from the advance money for models, amounting to more than \$3,500.00 a year, were being made in currency. It was suggested that these payments be made by check, but because the models did not want to be so paid and because the individual empowered to sign checks was not always immediately available, it was deemed impractical to put this suggestion into effect.

In this connection it was further noted that certain cash receipts on account of income were not being deposited intact, but were retained to make the aforementioned currency payments.

It is recommended that the Comptroller's Bureau review this entire problem as it is entirely contrary to the regulations set forth in its Accounting Manual.

**Equipment:** In checking the records of equipment purchased during this and prior audits, a lack of control over equipment after it has been purchased was indicated. Certain items of equipment such as cameras, recorders, etc., should be controlled more closely. It is suggested that the mechanics for such control be established.

It is suggested that possibly general ledger memorandum accounts may be set up for such items with a value in excess of a stipulated sum. Purchases would be so recorded and charge-offs would be made when substantiated. In this manner a permanent record of all such purchases together with their disposition would constitute a perpetual inventory and could be checked periodically.

It is suggested that the Comptroller's Bureau survey this problem as soon as is practicable.

## STATE TEACHERS COLLEGE AT BOSTON

REPORT NO. 54-120

**General:** This is the initial audit of this college. This college was authorized by Chapter 618 of the Acts of 1952 and commenced operations on September 15, 1952.

The plant and facilities were taken over from the City of Boston at no cost. At the present time a portion of the college's facilities are being utilized by the Boston School Department for the Girls Latin School. The City of Boston reimburses the Commonwealth for the use of these facilities as follows:

50% of the college's maintenance costs, i. e. janitorial services and heat, etc.

100% of those repairs directly attributable to Girls Latin School facilities

In this connection the City of Boston reimbursed the college in the amount of \$22,935.18 for the 1952-1953 school year.

**Accounts Receivable:** At the present time tuition charges for the entire school year are entered on the accounting records in September. Because of this method, many adjustments result particularly in those instances where students withdraw prior to the end of a semester. It is recommended that such charges be brought on to the records only at the beginning of each semester.

## WALTER E. FERNALD STATE SCHOOL

REPORT NO. 54-121

Farm Report: Previous audit reports have commented on the difficulty of making complete audits of farm reports because of the inaccuracies which they included.

In this connection the farm report for the 1952 year was examined and again several errors and inconsistencies were noted. These include the following:

1. The Farm Products to the Storeroom and the Farm Production Accounts in the general ledger were not in agreement with the comparable items in the annual farm report.
2. Farm Sales in the farm report were not in agreement with the farm sales as appearing in the general ledger.
3. The analysis of the Monthly Animal Census reports included many errors between the beginning and ending inventories. These reports were not in agreement with the farm report.

It is, of course obvious, because of the foregoing that the 1953 farm report is of very little value. It is, therefore, again urged that the farm records and the annual farm report be henceforth checked more accurately. It is further suggested that proper methods of internal control be practiced.

Funds of Patients on Parole: As of March 31, 1954, there were 96 employed patients on parole for whom the Commonwealth functions as a trustee. It is the present policy for such paroled patients to have savings bank accounts, and this institution is the trustee. Into these accounts are deposited balances of wages not expended directly for the paroled patient by employers.

In these cases, financial statements showing wages, expenditures and savings are required to be submitted monthly by the various employers.

On checking these financial statements, however, it was indicated in many instances that employers were temporarily withholding funds and deposits were not being made currently.

It is, therefore, suggested that the unexpended balances due employees be deposited more promptly.

## MASSACHUSETTS REFORMATORY

REPORT NO. 54-122

Accounts Receivable: Attention is directed to the fact that the outstanding maintenance accounts receivable of \$119,650.47 includes \$119,324.37 due from the Industries for Heat, Light and Power. Of the remainder of \$326.10 which was outstanding on April 12, 1954, \$54.50 was received while this audit was in progress.

Journal Entries: It was noted that all the journal entries do not include complete substantiating explanations. The suggestion made in previous audit reports relative to the incorporation of such information is accordingly repeated.

Farm Report: Attention is directed to the fact that the 1953 Farm Report was not properly completed as regard to Sheet I-1, inasmuch as the detail showing the cost of purchases is not in agreement with the cost ledger. It is understood that a new ledger sheet has been devised which should eliminate the present difficulty.

An examination of the "deaths by disease" as appearing in the herd and other stock records indicates no real departure from normalcy, excepting in the case of hens and chickens. The high death rate here has been attributed to a respiratory disease which infected the flock in April 1953.

It was noted that the corresponding farm charges and credits for Horse Labor and Truck Labor were not in agreement.

Milk production averaged 5,308 quarts per cow for the year and was produced at an average cost of 12.67 cents per quart.

Egg production averaged 229 eggs per hen per year at an average cost of .531 cents per dozen.

Canteen Accounts: During the period under audit two separate funds were established within this activity as follows: "Co-operative Aid Fund" and "Fire Insurance Fund". In this connection it was noted that ten per cent of the canteen gross profits is



set aside monthly for each of these funds. The fire insurance fund limit has been set at \$2,500.00 and is to be used in the event that fire destroys the canteen inventory. The Co-operative Aid Fund has a present ceiling of \$300.00 and will be used for the benefit of deserving inmates, particularly at time of release.

Three inmates now operate the canteen, one of whom manages the branch canteen at the farm dormitory. These inmates are paid \$20.00, \$10.00 and \$10.00 respectively per month, less any monthly canteen shortages which develop.

The present bookkeeping method of handling "shortages" has been to adjust the "Purchase at Selling Price" column in the cash book by the amount of these shortages and to charge the Operating Expense for only the actual amount paid to the inmates monthly. The proper method would be to charge the Operating Expenses for the entire amount of salary due the inmate and enter that part of the shortage which is reimbursed by the inmates on the receipt side of the cash book.

**Industries - Unfilled and Incomplete Sales Orders:** As of the date of this audit, there were 139 unfilled orders, several of which were dated in July 1952. The reason advanced for this large number was - "the shortening of the work week and the inexperienced personnel and turnover of available inmates". It was further noted that many orders have been canceled because of inability to complete.

**Industries - Operating Loss:** The operating statement for the fiscal year ending June 30, 1953 shows a loss of \$43,445.97 which when charged to the Surplus account created a deficit balance of \$3,761.33. It was further noted that the operating statement to March 31, 1954 shows a loss for the first nine months in the 1954 fiscal year of \$35,147.70. This would seem to be the result of diminishing sales with no substantial corresponding decrease in the operating expenses.

**Industries - Capital Expenditures:** It was noted that as of April 12, 1954, machinery and equipment which had been purchased at a cost of \$99,997.47 had not been entered in the Machinery and Equipment account in the general ledger, nor had any depreciation been charged for it.

This machinery was purchased from three separate accounts and was provided by appropriations from the General Fund and by transfers from the State Prison Colony Industries Fund.

It is understood that when the entire purchase transaction has been completed, it will be posted to the general ledger and depreciation will then be taken.

**Industries - Heat, Light and Power:** It was noted that the Heat, Light and Power bills have not been paid to the maintenance accounts of the institution since 1941. Attention is directed, however, to the fact that if these bills were to be paid as of the audit date, the cash in the fund would be entirely depleted.

**Industries - Auto Repair:** Attention is directed to the fact that this activity within the Industries was abandoned during the previous audit period.

**Industries - Processing System:** It was noted that the Industries Section does not have a control account in the general ledger for goods in process, and in this connection it is indicated on the date of audit there were approximately 34,000 pounds of waste material on hand at an estimated value of \$17,000.00 which would normally affect operating cost. It is understood that this material will be brought on to the general ledger in a control account at the beginning of the 1955 fiscal year.

**Industries - Articles Sold for Less than Cost:** A comparison of the unit costs with selling prices as per the Industries' catalogue was made of items sold during one month during the audit period. The following major variances were noted in this regard:

<u>Item</u>	<u>Unit Cost</u>	<u>Unit Selling Price</u>
#50 Blanket	\$ 2 95	\$ 3 40
#350 Blanket	13 00	5 25
#424 Blanket	4 75	4 50
#580 Blanket	10 41	6 50
#690 Blanket	20 47	8 50
Hospital Blanket	7 55	4 75
#107 Chair	4 92	5 50

#400 Typist Chair	\$21 07	\$22 50
#429-0 Chair	12 90	15 00
#429-2 Chair	16 33	17 25
#429-5 Chair	20 24	25 00
#429-6 Chair	23 04	30 00
#521-0 Chair	5 48	6 50
#522-0 Chair	5 36	6 50

Losses may probably be attributed to a low rate of production and consequent heavy individual overhead loads.

## STATE PRISON

REPORT NO. 54-123

Surety Bonds: The previous audit report stated:

"It was noted that the head clerk under the Maintenance Section and the senior bookkeeper in the Industries Section, both of whom handle cash, are not bonded. In this connection it was noted that a letter had been sent to the Commissioner of Correction dated October 2, 1952 requesting authority to obtain the necessary coverage. To March 30, 1953 no action had been taken on the matter.

"It is, therefore, again suggested that steps be taken to include these two employees with those that are presently bonded."

To date this situation remains the same, hence attention is again called to it.

Sale of Waste Paper: It was noted that during the period under audit 52,875 pounds of waste paper were sold for \$168.01, all of which was credited to the Printing Industry regardless of source. In this connection it would seem that some portion of it should have been credited to the Maintenance Division. As a matter of information, it is noted that the procedure is to notify the State Purchasing Agent periodically of the quantity of waste paper on hand and he obtains bids and advises the Prison of the highest bidder.

Underwear Shop Closed: It was noted that this shop was closed on February 26, 1954 in accordance with a letter to the Warden from the Commissioner of Correction dated January 29, 1954, which reads in part as follows:

"I am writing you with reference to the Underwear Industry at your institution and call your attention to the fact that the Financial Report for the past five fiscal years shows a total loss in operation of that department amounting to \$56,876.05, itemized as follows:

1949 -	\$ 7,493 22
1950 -	9,174 44
1951 -	10,551 12
1952 -	7,405 28
1953 -	22,251 99

and that in the present fiscal year, based on current reports, the loss is projected to be in the vicinity of \$12,000.00 to \$15,000.00.

"Therefore, by authority of Chapter 127, Section 51 of the General Laws, I wish to advise you I do not consider that this industry should be operated further and set the date of February 26, 1954 for the same to be discontinued."

It was noted that for the nine months ended March 31, 1954, the financial report of that date showed a loss of \$13,665.03.

Industries - Heat, Light and Power: The present method of establishing the charges made by Maintenance for heat, light and power to Industries has been the subject of discussion in the past several audit reports. In this connection the Supervisor of Industries has stated that when the new State Prison at Norfolk is completed, provision will be made to properly identify and allocate these charges directly to each industry.

Industries - Adjustments of Inventories: The previous audit report stated:



"Previous audit reports have recommended that all adjustments of raw materials and finished goods, should be entered in the general ledger control accounts as separate entries and not as additions to purchases or issues. As this suggestion has not been adopted, attention is again directed to it."

In this connection it was noted that this situation remains unchanged. Therefore, the foregoing recommendation is repeated.

**Scrap Metal Disposal:** The previous audit report stated:

"In accordance with instructions received from the Executive Department, and the Commissioner of the Department, 128,005 pounds of scrap metal was turned over to the Department of Public Works. In this connection the letter from the Commissioner of Correction included the following statement:

' . . . and arrangements are being made so that the proceeds will be given to the institution that delivers the junk . . . '

"To the date of the audit, March 30, 1953, this institution has not been paid for the scrap metal turned over to the Department of Public Works, and it is further understood that the receipts indicated have been credited to the Highway Fund in the Department of Public Works."

It was noted that on date of this audit the situation remains the same.

**Catalogue of Prices:** It was noted that the Department of Correction issued in September 1951 a catalogue of Articles and Materials produced at its various penal institutions. Insert sheets dated October 1952 have been added since that date.

**Registry of Motor Vehicles - Accounts Receivable - Industries:** On April 23, 1954 the accounts receivable ledger showed unpaid charges totaling \$229,494.01. Of this amount, \$219,406.51 had been billed to the Registry of Motor Vehicles at a price of 24 1/2 cents per pair of plates, but the bills had been returned to the State Prison for a price adjustment. In accordance with a letter dated April 22, 1954 from the Commissioner of Correction, the price per pair of plates was reduced to 21 cents. On May 20, 1954, adjustments totaling \$31,241.59 were made in the accounts receivable and new bills at the rate of 21 cents per pair of plates rendered to the Registry of Motor Vehicles.

Apparently the adjustment was necessary so that the billed price would conform to the unit cost of plates allowed in the budget request of the Registry of Motor Vehicles. In this connection reference is made to two letters written by the Commissioner of Correction, copies of which follow:

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THE COMMONWEALTH OF MASSACHUSETTS  
DEPARTMENT OF CORRECTION  
STATE HOUSE, BOSTON 33

April 22, 1954

John J. O'Brien, Warden  
State Prison  
Charlestown, Mass.

Dear Warden O'Brien:

Please be informed we have been instructed by Carl A. Sheridan, Commissioner of Administration, to bill the Registry of Motor Vehicles for 1955 plates at a unit cost requested in the Budget and approved by the Legislature. Therefore, I am instructing you to bill these plates at a unit cost of 21¢ per pair and to adjust your records accordingly.

Very truly yours,

REUBEN L. LURIE/s/ REUBEN L. LURIE  
COMMISSIONERc.c.: R. F. King, Registrar of Motor Vehicles  
C. A. Sheridan, Commissioner of AdministrationC THE COMMONWEALTH OF MASSACHUSETTS  
O  
P DEPARTMENT OF CORRECTION  
Y  
STATE HOUSE, BOSTON 33

April 22, 1954

Rudolph F. King, Registrar of Motor Vehicles  
100 Nashua Street  
Boston, Massachusetts

Dear Registrar King:

I am enclosing copy of letter to the Warden of the State Prison dated April 22, 1954, instructing him to bill you for 1955 number plates at a unit cost of 21¢ per pair.

In the future, when preparing your Budget, I am asking that you secure a written quotation from this office on your requirement of number plates for budgetary purposes, as I still am of the opinion, under Section 58, Chapter 127 of the General Laws, it is the responsibility of this Department to price all articles supplied by the prisons to the Commonwealth, counties, cities and towns, which shall conform as nearly as may be to the wholesale market rates for similar goods manufactured outside the prison.

Very truly yours,

REUBEN L. LURIE/s/ REUBEN L. LURIE  
COMMISSIONER

Enc.

CC. C. A. Sheridan, Commissioner of Administration

Inmates' Personal Funds - Cash Deposits: The previous audit report stated:

"It was determined to be impossible to check respective bank deposits to particular cash book receipts because the cash received in currency is accumulated and deposited in round amounts. In this connection it was noted that a total of \$2,075.00 of such currency was on hand as of the audit date. This practice is apparently necessary so that their cash may be returned to inmates when leaving the institution on parole or release. Inasmuch as the policy of accumulating cash is a dangerous one, it is suggested that other arrangements be made for the return of cash to inmates, and that all currency be deposited as received within a reasonable period."

It was noted that on the date of this audit, the same situation prevailed except that the amount of currency on hand was only \$373.87.

Canteen Fund - Benefit Payments: The expenditures for the benefit of inmates were analyzed for the audit period as follows:



Moving Pictures:		
Operation, Repairs, Film and Related Items	\$	462 10
Musical Instruments and Supplies		53 26
Holiday Items:		
Ice Cream	\$1,279 75	
Cake, Pastry, etc.	228 90	1,508 65
Sports Equipment		282 07
Television Set		195 00
Newspaper, Printing, Supplies, etc. and		
Calendars		316 91
Periodicals for Library		239 75
Electrical and Radio Supplies and Repairs		131 08
Miscellaneous Expenditures		26 50
		<u>\$3,215 32</u>

## INDUSTRIAL SCHOOL FOR GIRLS

REPORT NO. 54-124

Farm Records: Previous audit reports have called attention to certain conditions and situations with respect to the farm and its related accounts. Particular reference was also made to the pay roll status of certain farm employees.

The entire situation was again reviewed in connection with this examination. It was noted that the Head Farmer was transferred from the pay roll of the Lyman School for Boys to the pay roll of this institution as of July 1, 1953. A tractor driver and a farm hand were likewise transferred.

It was further learned that the senior bookkeeper was presently engaged in preparing the 1953 farm report. Only this report was being prepared and apparently it is not contemplated preparing such reports for the 1951 and 1952 farm years, which the previous audit report indicated were not then available.

The farm production for the 1953 farm year totaled only \$1,934.15.

Materials and Supplies: Previous audit reports called attention to shortcomings in these accounts, particularly to the number and type of adjustments occasioned by inventory taking.

In order to determine whether or not there had been some improvement in the general storeroom conditions, a complete physical inventory was taken in connection with this examination. As a result, it was noted that there were overages in 69 items with a total value of \$347.23, and shortages in 145 items with an aggregate value of \$1,355.40.

It was further noted that there had been no appreciable improvement with respect to method of handling adjustment requisitions.

It is, therefore, recommended that the Comptroller's Bureau survey this situation and advise the institution personnel concerned in the proper procedure and practices relating to maintenance of these accounts.

## STATE BOARD OF RETIREMENT

REPORT NO. 54-125

General: The audit reports of this Board for the past five years have indicated that the entered records of this Board were so far behind the actual transactions on the respective audit dates that it had been impossible to make the annual examinations required by statute. In this connection it was noted that the condition of the records applicable for the 1953 year which were found when this audit was initiated on April 26, 1954, again indicates that the Board had not yet brought their records to a current basis. On that date the following situations existed with reference to the records:

- Trial balances of subsidiary control ledgers, December 31, 1953 - not completed
- Trial balances of individual accounts ledgers, December 31, 1953 - not completed. Only one out of 25 State Departments completely posted to the ledger cards for year 1953; and only 8 out of 48 State Hospitals, Teachers Colleges and Institutions completely posted to the ledger cards for the year 1953
- Trial balances of individual accounts ledgers reconciled to their subsidiary control ledgers, December 31, 1953 - not completed.

Because of the foregoing conditions, it was again deemed impossible to complete the verification of the financial transactions for the calendar year 1953; to balance the individual accounts ledgers to their respective subsidiary ledger controls and to the general ledger control; and to verify the balances of the members of the State Retirement System as of December 31, 1953.

Attention is also directed to the fact that certain statements indicating changes in the various funds, etc., for the current year and their status at the end of the year could not be prepared because of the absence of the necessary data.

**Position Schedule Bond:** It was noted again that the only position covered by bond was that of the Executive Secretary. At the present time, the only employee handling funds is the senior bookkeeper who maintains the cash book and also acts as custodian of monies until they are turned over to the State Treasurer. This employee, however, is not bonded and it is suggested that necessary steps be taken to provide such a bond.

**Annual Statements of Individual Account Balances:** It was noted that no notices of balances, etc., have been sent to the members of this system for the years ended December 31, 1951, December 31, 1952 and December 31, 1953.

#### WRENTHAM STATE SCHOOL

REPORT NO. 54-126

**Patients' Bankbooks:** In connection with the examination of patients' bankbooks on hand it was noted that Book #8777 with a balance of \$19.81 in the Grafton Savings Bank could not be located. The bank was notified of this loss and indicated that steps would be taken to recover it by newspaper advertising.

It was also noted that certain bankbooks had had no interest credited to them by the National Bank of Wrentham because the respective outstanding balances were less than \$25.00. It was further noted that on balances in excess of \$25.00 this bank pays interest at the rate of only 1% per year. This rate would appear quite small when compared to that paid by other savings banks in the Commonwealth.

A few bankbooks showed incorrect balances on the date of audit and these were corrected by the bank while the audit was in progress, and in this connection a letter dated April 14, 1954 from the National Bank of Wrentham was found in the files acknowledging an error of \$500.00 in passbook No. 7039. This error was subsequently corrected.

**Farm Report for 1953:** During the month of February 1953, an abnormal rise in the death rate of hens was noted and, as a result, some hens were sent to the Experiment Station of the University of Massachusetts for examination where a diagnosis of fowl typhoid was made. The Department of Mental Health was notified who, thereafter, recommended that the entire flock of hens and chickens be disposed before March 20, 1953. A direct effect of this action was the cessation of egg production from that date to the end of the 1953 year.

The total egg production for the 1953 farm year was 11,967 dozen at an average production cost of \$.94 per dozen. This increase in cost over the previous year was attributed to a 70% decrease in production with only a 50% decrease in costs.

It was also noted that the production of pork totaled 64,075 pounds at an average cost of \$.245 per pound. This indicated an improved situation when the average prior year's cost was \$.369 per pound.

Milk production has decreased since the previous year because of a smaller average number of cows in the herd, while the production cost per quart rose from \$.1201 to \$.1378.

**Industrial Accident Cases:** There were 49 new cases reported in this category since the prior audit date. Of this number, 39 lost no time from work and were paid through the institution pay roll, and two cases elected to take sick leave in preference to compensation for the time they were disabled. The remaining 8 cases sought compensation from the Division of Industrial Accidents of which six received compensation and two are still pending.

It was further noted that one employee who suffered a back injury in February of 1951 was paid \$30.00 per week by the Division of Industrial Accidents. In May of 1952 an application for discontinuance of payments was filed by the institution but this application was rejected by the Division and compensation is still being received by the employee. Although the employee's name is still retained on the institution pay roll, she has not actually worked since the date of the injury. It is recommended that the institution seek to have the Division of Industrial Accidents review this case so that the status of this



employee be currently ascertained.

## BUREAU OF ACCOUNTS

REPORT NO. 54-127

**Accounts Receivable Ledger:** It was noted in the present accounts receivable ledger, where are recorded the sales of supplies to cities, towns and districts, that no credit columns are provided in which to record cash payments received by the Bureau or amounts to be assessed by the State Treasurer for sales of supplies unpaid at the end of the calendar year. It is suggested that the present ledger sheets be revised so that this condition may be rectified.

**Pay Rolls:** It was noted that the salary of an employee of the Cigarette Tax Bureau in the Department of Corporations and Taxations amounting to \$3,720.00 annually, is currently being charged to the pay roll account of this Bureau. As a result, these accounts appear to have been improperly charged with \$3,100.00 for the period July 1, 1953 to April 30, 1954. It is suggested that the necessary action to correct the status of this employee be taken.

**Cash Book:** It was noted that all cash receipts, irrespective of source, are now recorded in the cash book in accordance with the suggestion made in the previous audit report.

**Income Cash:** It was noted that the receipts from Certification of Notes are now being deposited by the Bureau directly with the State Treasurer in accordance with the procedure outlined in the previous audit report.

## DIVISION OF EMPLOYMENT SECURITY

REPORT NO. 54-128

**General:** Funds for unemployment compensation payments and for administration of the State Division of Employment Security are provided for by maximum taxes of 3% assessed against pay rolls. Funds expended in Massachusetts for these purposes are provided for or offset entirely by collections from employers within this Commonwealth. Starting January 1, 1954 collections were based on employers' experience ratings.

Irreducibly included in these taxes is an assessment of .3% collected by the Federal Government from employers, which, while it is not segregated for this purpose, offsets the sums provided by the Federal Government to administer unemployment compensation. Under this levy, on the basis of available statistical records, it is understood that Massachusetts employers paid approximately \$11,300,000.00 into the Federal Treasury during the 1953 fiscal year. During this period, the Commonwealth received and expended approximately \$8,750,000.00 for the administration of this Division. This amount represents 77.4% of the taxes collected from Massachusetts employers for this purpose.

**Veterans' Readjustment Assistance Act of 1952:** The Commonwealth, through the Director of Employment Security, entered into an agreement with the United States Secretary of Labor to provide unemployment compensation to veterans as defined in the Veterans' Readjustment Assistance Act of 1952.

Veterans eligible under this Act may receive \$26.00 per week for no longer than 26 weeks. The Commonwealth is to be reimbursed by the Federal Government for these payments with the exception of veterans who are entitled to benefit payments under the State Unemployment law. In such instances the Commonwealth will be reimbursed only for that portion of the benefit payments in excess of the amounts to which they are entitled under the State Unemployment law.

**Relation of Benefit Payments to Employer Contributions:** In compliance with Section 14, (b), Chapter 151A of the Tercentenary Edition of the General Laws, the four lowest contribution rates were increased by .5% with a maximum of 2.7%, effective as of January 1, 1950. Effective January 1, 1951, the rates were all set at 2.7% and were maintained until January 1, 1954. A statement of benefit payments together with employer contributions and interest for the five fiscal periods beginning with July 1, 1949 follow:

<u>Date</u>	<u>Employer Contributions and Interest Less Refunds</u>	<u>Interest Credited by U. S. Treasury</u>	<u>Total</u>	<u>Net Benefit Payments</u>
July 1, 1949 to June 30, 1950	\$ 49,061,832 72	\$ 3,104,843 77	\$ 52,166,676 49	\$111,683,504 18
July 1, 1950 to June 30, 1951	76,353,425 29	1,418,168 01	77,771,593 30	48,599,744 22
July 1, 1951 to June 30, 1952	98,145,038 95	2,751,093 52	100,896,132 47	60,494,055 75
July 1, 1952 to June 30, 1953	100,116,354 92	3,811,868 95	103,928,223 87	44,757,969 37
July 1, 1953 to May 3, 1954	77,868,220 88	5,493,797 46	83,362,018 34	47,660,360 10
	<u>\$401,544,872 76</u>	<u>\$16,579,771 71</u>	<u>\$418,124,644 47</u>	<u>\$313,195,633 62</u>

The effect of the increased contribution rates is of course reflected in the foregoing schedule.

Contribution Rates: Chapter 397 of the Acts of 1953 incorporated several revisions into Chapter 151A of the Tercentenary Edition of the General Laws.

In this connection Sections 14 (i) and 14 (j) of said Chapter 151A of the Tercentenary Edition of the General Laws follow:

"Section 14 (i). The contribution rate of each employer shall be two and seven-tenths per cent of that part of his pay roll subject to this chapter, except as follows:-

(1) If prior to or on October 1, 1953 the Unemployment Compensation Fund available for benefits becomes six per cent of total taxable wages as determined in subsection (h) (2) above, the experience rate of each employer shall be determined in accordance with Schedule A for the calendar year 1954.

Schedule A provides experience rates ranging from 1% to 2.7%.

(2) Whenever, as of any computation date after nineteen hundred and fifty-three the unemployment compensation fund available for benefits is less than five and one half per cent of total taxable wages as determined in subsection (h) (2) above, the experience rate of each employer for the ensuing calendar year shall be two and seven-tenths per cent.

(3) Whenever, as of any computation date after nineteen hundred and fifty-three the unemployment compensation fund available for benefits is equal to or exceeds five and one half per cent but is less than seven per cent of total taxable wages as determined in subsection (h) (2) above, the experience rate of each employer for the ensuing calendar year shall be determined in accordance with Schedule A.

(4) Whenever, as of any computation date after nineteen hundred and fifty-three the unemployment compensation fund available for benefits is equal to or exceeds seven per cent of total taxable wages as determined in subsection (h) (2) above, the experience rate of each employer for the ensuing calendar year shall be determined in accordance with Schedule B.

The rates in Schedule B. range from 0.5% to 2.7%.

(5) If at any time during any quarter the Unemployment Compensation Fund available for benefits is less than four and one half per cent of total taxable wages as determined in subsection (h) (2) above, the experience rate for each employer beginning with the first day of the following quarter shall be two and seven-tenths per cent.



(j) (1) Whenever, as of any computation date after September thirtieth, nineteen hundred and fifty-two the reserve percentage of the solvency account is more than one fourth of one per cent but less than one half of one per cent, an amount equal to three-tenths of one per cent of the taxable wages paid by an employer during the four consecutive quarters immediately preceding the computation date and including the quarter ending on said computation date shall be charged to the employer's account, providing the account balance is positive, and credited to the solvency account.

(2) Whenever, as of any computation date after September thirtieth, nineteen hundred and fifty-two the reserve percentage of the solvency account is one fourth of one per cent or less, an amount equal to six-tenths of one per cent of the taxable wages paid by an employer during the four consecutive quarters immediately preceding the computation date and including the quarter ending on said computation date shall be charged to the employer's account, providing the account balance is positive, and credited to the solvency account."

Attention is directed to the fact that the total taxable wages in Massachusetts for the 1952 calendar year were \$3,636,347,336.00. The fund balance would have to be \$218,180,840.16 on the computation date (September 30, 1953) in order that employer experience rates might become effective for the succeeding calendar year of 1954. On September 30, 1953 the fund balance was \$234,459,766.82, and the experience rate of each employer will be determined in accordance with Schedule A, section 14 (i) (1) of Chapter 151A for the calendar year 1954.

**Debit Memoranda:** Quarterly contribution reports as submitted by the employers are examined by the Desk Audit Section of the Contribution Department, and if it is determined that additional contributions, interest or penalties are payable to the division so-called debit memoranda are issued. The amount determined to be due from each employer is then posted to the employer ledger account in the Delinquency and Collection Division.

When checks received in payment of contributions are returned by the bank as dishonored, charge vouchers are made out by the cashier's unit, and debit memoranda are correspondingly issued to the employers.

The total amount of debit memoranda is reflected in the State general ledger in the account "Contributions Receivable - Under-payments". The balance in this account on April 30, 1954 was \$1,584,891.03.

**Maintenance Expenses:** A comparison of certain maintenance expenses for the five fiscal years ended June 30, 1953 follows:

	Fiscal Year 1949	Fiscal Year 1950	Fiscal Year 1951	Fiscal Year 1952	Fiscal Year 1953
Personal Services	\$5,221,131 60	\$6,537,013 73	\$6,199,605 04	\$6,672,648 88	\$7,170,077 28
Rent of Buildings	344,786 15	366,708 09	464,622 02	527,926 86	565,640 82
Rental of Office Machinery	165,894 16	185,944 99	194,191 80	181,212 84	189,908 08
Repairs, Office Furniture and Fixtures	10,560 99	47,433 43	13,223 85	5,953 81	8,553 36
Purchase of Equipment	7,821 33	56,584 24	81,260 80	105,796 95	79,895 71
	<u>\$5,750,194 23</u>	<u>\$7,193,684 48</u>	<u>\$6,952,903 51</u>	<u>\$7,493,539 34</u>	<u>\$8,014,075 25</u>

**Restaurant:** There is a restaurant in operation in the basement of 881 Commonwealth Avenue, Boston, which is operated by an individual not a Division employee. To date there has been no income from this source accruing to the Division which at present furnishes space, heat, light and water. In the past the Division reviewed the possibility of assessing rental charges to a predecessor concern but decided that to make such charges would work hardship on the proprietor. It is understood that the national office of the

United States Department of Labor is considering the establishment of a policy concerning lunchroom and cafeteria space, as well as income from vending machines.

## PONDVILLE STATE HOSPITAL

REPORT NO. 54-129

**Rental Income:** The previous audit report's suggestion that the housekeeper maintain a record indicating each room by number together with their occupancy status has been complied with.

That report also suggested that room numbers be entered on sales slips which record such transactions so that income received could be more easily verified. In this connection it was noted that steps are now being taken to put this recommendation into effect.

**Accounts Receivable:** In this connection the previous audit report stated:

"It was noted that an amount of \$995.00 is due from a patient, who is still at this institution for board and care received since November 14, 1952. Prior to that date the hospital expenses incurred were paid for by the Blue Cross. It was learned that there was some question of liability because of the patient's claim for reimbursement for injury allegedly suffered while employed by the Commonwealth. There also appears to be a question of domicile as affecting the right of the patient to receive treatment in this State. It is therefore recommended that the Department of Public Health seek to resolve these questions so that a settlement may be reached as to this patient's liability."

Correspondence seen in connection with this examination would indicate that the domicile has been adjusted. However, the question of settlement still remains unanswered. It was noted that this individual is still a patient at the institution and current charges are being made at the weekly rate of \$35.00. On the date of this audit the outstanding balance due was \$2,665.00 representing an increase of \$1,670.00 over the balance due at the time of the preceeding audit.

It is again recommended that steps be taken to expedite the determination of this patient's settlement status.

The previous audit report also stated as follows:

"It is also suggested that in these instances where patients are receiving Blue Cross benefits a separate ledger page be inserted in the accounts receivable ledger for the recording of charges covered by the Blue Cross as distinguished from those charges made directly on a 'private' basis. This will facilitate the determination of amounts due from private patients when Blue Cross benefits cease."

It was noted that the foregoing suggestion has been complied with.

It was further noted that there were 14 patients or former patients whose aggregate account balances are in excess of \$3,300.00, where the question of liability has been raised. It is therefore recommended that these cases be referred to the Attorney General as soon as possible for collection or disposition.

**Control of Purchases:** The previous audit report stated in this connection:

"It appears at the present time that adequate control over requisitions and purchase orders made out by this institution is not exercised by the steward who was recently appointed. This function is being performed by the institution treasurer because it apparently had been the practice during the term of employment of the prior steward. However, inasmuch as the steward orders materials and supplies it is therefore necessary that he have control over requisitions, purchase orders, and the budgetary control register which indicates the balances of allotments available for additional commitments."

It was noted that these duties are now being performed by the institution steward. The previous audit report also stated:



"A review of the filing system further indicates that improvement is necessary in the manner of filing requisitions, unfilled purchase orders, and those orders which have been completed. It was learned however that steps will soon be initiated to revise the present system."

In this connection it was noted that a new file cabinet was purchased and the records referred are now being properly filed.

**Income from Vending Machines:** The previous audit report stated in this connection:

"In order to properly account for all income received from vending machines certain changes should be instituted with regard to their collections. Contracts should be drawn indicating the percentage of income to be paid to the institution. The presence of a designated institution employee should be required when collections are made from the machines by the vendors' representatives. The current practice of making collections and the mere mailing of unverified commission checks is not adequate and does not prove whether the institution is receiving that to which it is entitled."

Inasmuch as this situation still prevails the comment is repeated so that appropriate action may be taken.

**Bonding:** It was noted that the senior clerk-stenographer, who handles cash in the treasurer's office, is not bonded.

It is recommended that arrangements be made so that she may be bonded.

It was also noted that there is no messenger bond to cover employees transporting State funds to the local bank for deposit. It is therefore also recommended that these employees be bonded.

**Key Fund:** This fund represents deposits of \$.50 each by employees for room keys. When an employee gives up his room the key is surrendered and a refund of the deposit is made.

At the date of audit there was \$155.50 on hand in the office in an envelope representing the cash balance in this fund.

It is suggested that these funds be deposited in a bank and that only a nominal amount of cash be kept on hand to make deposit refunds.

**Patients' Funds:** All patients' funds and valuables received are placed in individual envelopes with the patient's name and contents listed on the face of the envelope. These envelopes are filed in the treasurer's office.

Inmates receipt form (CB 22) is given to patients and the receipts are entered in a notebook which is kept in lieu of a regular patients' cash book. Requests for withdrawals are prepared on standard receipt form (CB 23).

It is recommended that a regular patients' cash book be obtained to record these transactions, and that a general ledger account be maintained for the control of all such funds.

## MASSACHUSETTS MARITIME ACADEMY

REPORT NO. 54-130

**Cash:** As of the date of audit, the State funds at Hyannis indicated an overage of \$.12. However, in connection with this matter it was noted that a check in the amount of \$3.21, representing commissions on telephone pay stations, had been received and deposited in the bank during the audit period. This item had not been forwarded to the State Treasurer nor had it been entered on the cash book.

Had this receipt been properly recorded, a shortage of \$3.09 would have actually been indicated as of the date of audit.

**Transfer of Property to the Town of Barnstable:** During this audit period the commissioners of the Massachusetts Maritime Academy, on behalf of the Commonwealth, in consideration of the sum of one hundred thousand dollars, transferred certain parcels of land together with buildings to the Town of Barnstable as authorized and directed by Chapter 623 of the Acts of 1953.

**Social Funds:** It was noted that three Social Funds, one for each class, were

established during the period under audit. The purpose of these funds is to pay the expenses of the social activities of the particular classes.

The receipts are derived from the yearly Social Fee that each midshipman is expected to pay.

**Bonds:** It is suggested that the Commissioners consider the advisability of bonding those faculty members who have charge of the funds of the Athletic Board and the Year Book accounts.

**Year Book Accounts:** The present system of recording the transactions of the Year Book accounts does not provide means for satisfactory verification of receipts and should be revised to include this feature.

**Clothing Inventory:** An inventory of the clothing and supplies was taken on May 4, 1954 and was reconciled with the book inventory.

This inventory resulted in a shortage of \$128.68 which is equivalent to 0.34% on net sales of \$38,346.26.

#### STATE PRISON COLONY AT NORFOLK

REPORT NO. 54-131

**Bond Coverage:** It is recommended that the employees who handle inmates' receipts at the Gate House be bonded.

**Inmates' Compensation Fund:** The balance in this fund as of the date of the current audit was \$29,357.86. It is understood that payment of compensation to inmates should commence when the balance in this fund reaches \$26,000.00. In this connection it was ascertained that inmates' earnings were being computed for the quarter February 28, 1954.

**Industries - Adjustments:** It was noted that the inventory adjustments indicated a substantial increase in the 1953 fiscal year over that of the previous year of \$1,527.93 as compared with \$1,140.21. It is suggested that better control of inventories will tend to reduce such adjustments to a minimum.

**Industries - Profit from Operations:** The total sales for the fiscal year 1953 were \$521,815.64 as compared with \$568,433.89 for 1952, a net decrease of \$46,618.25. The profit for 1953 was \$74,327.09 which is equivalent to 14.24% on sales. The Metal and Shoe Shops indicated increases in profits for this year.

#### ALCOHOLIC BEVERAGES CONTROL COMMISSION

REPORT NO. 54-132

**Pending Refunds:** The previous audit report included a list of refunds totaling \$52.00 which were then pending. The several items involved were checked to a refund schedule or to a permit or certificate subsequently issued.

As of the date of this audit there were no pending refunds.

**Departmental Income Account:** The previous audit report stated in this connection:

"It is suggested that an account for departmental income be set up in the general ledger of the commission. An account of this nature is most important and should be forthwith included."

It was noted that this recommendation has not yet been followed, but it is understood that such an account will be established at the beginning of the 1955 fiscal year.

**Returned Check:** It was noted that a check for \$1,502.00 which had been returned by the bank because of "Insufficient Funds" on January 14, 1954 was redeemed by the "Wholesaler - Importer" on January 22, 1954, together with a service charge of \$2.12 which had been paid by the Commission.

#### MEDFIELD STATE HOSPITAL

REPORT NO. 54-133

**Shortage of Cash:** The previous audit report commented on the existence of a cash shortage of \$7,830.00. In this connection it was noted that the entire amount of the shortage was recovered in August 1953.



**Unrecorded Cash - Contractors' Deposits:** The previous audit report commented that there were three contracts in effect which required the deposit of cash or a certified check in specified amounts as performance bonds and further noted that there were three such deposits on hand, none of which had been recorded in the cash book.

It was recommended at that time that all future deposits be accepted only by certified checks and that they be properly recorded.

It was noted, however, that no action has been taken in this connection and on the current date of audit two of these deposits were still on hand, one represented by currency in the amount of \$300.00, the other in the form of a certified check in the amount of \$100.00.

**Patients' Funds:** The previous audit report noted that there was on hand three checks drawn in favor of patients that had not been included with the Patients' Fund cash balance.

In this connection the Department of Mental Health has taken steps to determine the value of two of these checks drawn in the respective amounts of \$6,086.54 and \$5,000.00 in favor of a patient. It now appears as a result of this investigation that these two checks have no value.

The third check in the amount of \$1,549.44 which was dated April 9, 1953, drawn on the Quincy Trust Company in favor of a patient admitted on April 9, 1953, was not on hand on this audit date. No information or record of this check ever having been on hand or of its disposition was available in connection with the current audit. The property card of this patient showed that all property listed thereon was returned on September 30, 1953.

**Room Rent Income:** It was determined to be not possible to verify room rent income because the room cards were not currently posted. It is recommended that this record be always currently maintained.

**Patients' Bankbooks and Property:** The method of handling patients' property at this institution requires revision. At present, property cards are not completed and do not include all property received from patients. A previous comment in this report called attention to three checks not recorded. It was also noted that bankbooks were not listed on these cards in all cases. Certain such bankbooks which were on hand at the time of the previous examination which were not on hand at the time of this current audit, could not be traced or identified.

It is therefore recommended that these records be made inclusive and be maintained on a current basis. It is further suggested that arrangements be made so that the Treasurer's office may be advised of patients' discharges so that their funds and property may be returned to them promptly.

**Canteen:** A complete inventory of the canteen taken on May 10, 1954 in connection with this audit indicated a shortage of \$551.59 for the entire period of audit. It was also noted that monthly inventories taken by institution personnel during this period indicated that they were consistently short. No adjustments were made for these variances during this entire period.

It was also noted that deposits of receipts are being made at an average of once weekly and on the date of audit nine days receipts were still on hand. It is recommended that these deposits be made more frequently and in exactly the same form as that in which it was received.

**1953 Farm Report - Inventory:** It was noted that the amounts of the beginning inventory of the 1953 farm report were not in agreement with those of the closing inventory of the 1952 report. This resulted in overstating the farm loss by \$3,008.68 during 1952.

The 1953 report showed the correct inventories; therefore, the results of operations were not affected.

**Funds of Deceased Patients:** It was noted that funds of deceased patients continue to accrue at this institution. No funds of deceased patients have been transmitted to the Department of Mental Health during this audit period.

It is recommended that these funds be disposed of in accordance with existing directives.

**Bonding of Employees:** It was noted that the bond for the clerk in the Treasurer's office who handles patients' funds was not renewed during this fiscal year. As this clerk handles the patients' funds almost exclusively, it is recommended that adequate bond

coverage be obtained.

## REFORMATORY FOR WOMEN

REPORT NO. 54-134

**Meal Tickets:** During this audit period there were 3,147 meal tickets used with a value of \$9,441.00, of which 296 valued at \$888.00 were given to internes of this Institution at no charge.

In regard to this matter, letters authorizing free issues for these items were seen with three exceptions, to whom 122 were issued.

It is suggested that such letters of authorization should be available in all instances where tickets are issued at no charge.

**Rents:** It was noted that two employees were being charged less than the amounts stipulated on the quarters register cards in the amounts of \$.50 and \$.47 respectively.

In one instance the undercharges continued for a period of 41 weeks and in the other for 6 weeks. This matter was brought to the attention of the Institution treasurer, who indicated these two employees would be billed for the undercharges and the pay roll deductions would be adjusted.

**Sale of Household Gas to Tenants:** The previous report stated that illuminating gas was sold to certain employees occupying quarters at a rate of eight cents per hundred cubic feet despite the fact that its actual average cost was substantially more.

In this connection it was noted that the initial rate charged the Institution was \$.195 per hundred cubic feet and this charge after 530 cubic feet had been used was reduced to \$.16 per hundred cubic feet.

It was noted that effective with the October 1953 bills the rate charged to the employees was adjusted to the lower of these rates.

**Laundry Service to Employees:** Previous audit reports have also commented on the practice of doing laundry for employees at the rate of \$.44 per dozen pieces, which is substantially lower than the rates charged by commercial laundries in the area. It was suggested that these rates be adjusted so that they could compare more favorably with commercial rates. However, nothing has been done to adjust this rate and the practice still continues.

This suggestion is accordingly repeated.

**Slaughter of Veal:** The previous audit report stated that calves were being slaughtered before they were two weeks old; contrary to Section 151 of Chapter 94 of the Tercenary Edition of the General Laws, as amended.

During this audit period it was seen that this practice was discontinued and calves are now being slaughtered in accordance with the statutes indicated.

**Farm Production:** The previous audit report called attention to the fact that milk and pork were being sold at prices less than 1952 production costs.

In 1953, however, this condition had been corrected as is indicated by the following: Milk production for the 1953 farm year was 210,659 quarts and was produced at a cost of \$.124 per quart. During this period milk sales of 91,601 quarts were made at \$.129 per quart.

Pork produced for this period totaled 18,644 1/2 pounds at a cost of \$.223 per pound. Pork is permitted a credit of \$.22 per pound for farm report control purposes.

It is believed that this more favorable picture is indicated during 1953, because production was larger during the 1953 farm year.

**Accounts Receivable:** Included with the outstanding accounts receivable is one in the amount of \$199.98, which is owed by an employee of this Institution who is drawing workman's compensation. An attempt to verify this account through correspondence was unsuccessful.

It is suggested that steps be initiated to collect this balance and if unsuccessful it be turned over to the Attorney General for action.

**Industries - Charged-Off Items:** The previous audit report stated in this connection:

"Obsolete articles of clothing valued at \$448.98 have been charged-off the books, yet the respective items are still in the storeroom."



It was noted that these articles were given to the Walter E. Fernald State School with the written consent of the State Purchasing Agent during the current audit period.

**Industry Losses:** It was noted that the Knitting and Poultry Industries showed operating losses of \$2,694.46 and \$4,140.20 respectively for the 1953 fiscal year.

During the same period the Flag and Sewing Industries indicated operating profits of \$11,821.83 and \$13,706.82 respectively. The total net profit for all four industries was \$18,693.99, a decrease of 47% over 1952 when the net profit for all industries was \$35,035.93.

The records further indicate that the average number of inmates at this Institution during the 1953 year was 227 of which only 41 or 18% were employed in the industries. It appears that had additional inmates been employed, production would have accordingly increased so that the book costs would have been correspondingly reduced, since overhead expenses remain fairly constant.

**Goods Sold at Less Than Cost:** In a testing of the cost of articles manufactured during the audit period, with their respective selling prices, it was noted that the following were sold at prices below the book cost of manufacture:

<u>Item</u>	<u>Unit Cost</u>	<u>Selling Price</u>
U. S. Wool Flag 4 x 6	\$ 7 85	\$ 7 71
U. S. Wool Flag 5 x 8	13 36	11 93
U. S. Wool Flag 6 x 9	19 43	16 50
U. S. Wool Flag 6 x 10	23 37	18 25
U. S. Silk Flag 4 1/3 x 5 1/2 Style B	46 54	44 70
Mens Hose #84	4 08	3 75
Mens Hose #140	3 99	3 50
Womens Hose #200	7 50	4 75
Bleached sheets 54 x 78	17 03	16 63
Bleached sheets 54 x 99	21 63	20 50
Bleached sheets 63 x 90	23 79	20 98
Bleached sheets 63 x 99	26 14	22 84
Bleached sheets 72 x 99	29 13	27 92
Bleached sheets 72 x 108	32 07	30 23
Bleached sheets 81 x 99	44 87	36 92
Bleached sheets 81 x 108	48 66	40 02
Bleached sheets 90 x 99	35 79	35 36
Unbleached sheets 54 x 78	15 36	14 15
Unbleached sheets 72 x 108	28 14	26 40
Pillow cases 45 x 36	8 86	8 49
Spreads 63 x 99	31 88	27 53
Spreads 72 x 99	36 61	31 83
Chicken	54	35

#### DEPARTMENT OF PUBLIC SAFETY

REPORT NO. 54-135

**Unnumbered License Forms:** An inventory was taken of the various licenses and permit forms on hand in the stock room and in the various offices of this department as of May 12, 1954. In this connection it was noted that those license forms which had not been prenumbered by the printer on the date of the previous audit now bear such numbers. It was further noted that the following license forms still had not been prenumbered by the printer:

Elevator Renewal  
Engineer and Fireman Renewal  
Hoisting Engineer Renewal

For accounting control purposes all forms, etc. for which a fee is charged should be so numbered and it is therefore suggested that all the unissued licenses be so numbered.

**Boxing Fund Income:** On April 24, 1953, a boxing match was televised for which the Commonwealth did not receive the usual 5% television tax. In this connection Section 40 of Chapter 147 of the Tercentenary Edition of the General Laws as inserted states in part as follows:

"Every licensee must pay to the State Treasurer five per cent of the total gross receipts from television rights."

On November 16, 1953 this matter was referred to the Attorney General for action. To date, however, this matter has not been disposed of.

**Collection of Boiler and Air Tank Inspection Fees:** A previous audit report recommended that the system for collection of fees on Boiler and Air Tank inspections be revised. Effective July 1, 1950 a new system for collection of these fees was inaugurated and continued until April 1, 1951, at which time the previous system of handling such collections was re-established with some modifications. From April 1951 to January 1, 1954, bills were prepared in the Inspection Division and were sent to the Cashier's Office for collection. Since the latter date however, the bills are also prepared in the Cashier's Office. In this connection attention is directed to the fact that since April 1951 no permanent record of bills issued is maintained. It was also noted that bills rendered to cities and towns and to agencies of the Commonwealth for boilers on which an advance payment was not required were not entered in the bill book.

An analysis of the so-called ten day reports was made during the current audit period for the purpose of determining the potential amount of billings. In this connection it was noted that bill numbers were not being entered on these reports, that they included duplication of tag numbers and that the reports were filed before it had been determined that individual inspection reports had been received. Because of these shortcomings, it was deemed impossible to establish the accuracy of the billings.

It is recommended that the individual inspection report and the ten day report be submitted simultaneously and that bill numbers be entered on the ten day report against the tag number covered by the bill. It is further recommended that all bills be entered in the bill book.

**Advance Money - Bad Checks:** It was noted that ten bad checks totaling \$42.00 which had been returned from the bank for various reasons had been reimbursed from advance money. In this connection the Comptroller's Manual states as follows:

"No claim against the Commonwealth which has not been paid because of insufficient funds shall be paid from an advance."

Because of this practice the returned checks have never been reflected on the records of this department.

It is suggested that this practice be discontinued forthwith.

**Rents:** It was noted that rental income is not charged to the Accounts Receivable control account until paid. These charges should be entered when payments become due.

It was noted that the former operator of the gas station located at 1006 Commonwealth Avenue, Brookline, vacated the premises owing \$1,181.94 in rent. It is suggested that this matter be turned over to the Attorney General for collection.

## DIVISION OF INSURANCE

REPORT NO. 54-136

**Shortage in Accounts:** Shortly after this audit was initiated, it became apparent that a shortage existed in both the income and advance money accounts which are maintained in separate bank accounts. These conditions were immediately called to the attention of the Insurance Commissioner.

In order to develop the extent of the cash variances, the scope of this examination was necessarily extended to include all transactions through June 30, 1954. As a result, the following summarizes the total shortages, identified by source, located by this examination:

Advance Money	\$ 2,424 04
Income	<u>17,473 35</u>
	<u>\$19,897 39</u>

**Shortage in Advance Money:** This advance fund is intended to be used for only the following purposes:



1. Petty cash expenditures
2. Occasional refunds of license fees
3. Advances to employees toward travel expenses

The major expenditures from this fund are made for items falling within the third category, and the expenditures within the first two categories are relatively small in number. It is understood that approximately \$400.00 in currency is ordinarily retained in the cashier's office for the purpose of cashing employees' travel advance checks, and the remainder of the fund that has not been advanced to employees for travel purposes is on deposit in a local bank. When checks are cashed for the currency on hand, they are subsequently deposited in the bank account and thereupon a check is drawn on that account in exchange to replenish the office cash.

In the ordinary routine, these checks to reimburse the currency in the office were drawn payable to the Commissioner of Insurance or to the order of one of the deputy commissioners and were, of course, signed by either the Commissioner or one of his deputies. All such checks were regularly endorsed by the payee indicated, and subsequently the proceeds were ostensibly turned over to the cashier's office.

For the period beginning with July 1, 1953 and ending on May 18, 1954, the initial date of this examination, the following summary of the currency transactions passing through this account was made:

Receipts:		
Checks Drawn for Office Cash		\$3,850 00
Returns of Advance Money by Employees		3,479 13
Total Currency Available		<u>\$7,329 13</u>
Less:		
Currency Deposited in Advance Fund		
Bank Account	\$1,200 00	
Checks Supposedly Cashed	3,445 12	
Currency Paid to Employees to Balance Accounts, when Actual Expenses Exceeded Amounts Advanced	26 09	
Total Currency Payments		<u>4,671 21</u>
Currency that Should Have Been on Hand		\$2,657 92
Cash on Hand, May 18, 1954		361 03
Cash Shortage, May 18, 1954		<u>\$2,296 89</u>

In connection with this matter, attention is directed to the fact that this shortage was increased to \$2,424.04 when the advance fund was again balanced on June 30, 1954.

Shortage in Income Accounts: In this connection, approximately 400 letters and confirmation notices were mailed in an effort to determine whether income had been received by the department and not recorded. This was done because it was evident from the examination of the advance fund that it had been used as a vehicle to siphon items of income received. In this respect the income accounts were examined for the period beginning with January 1, 1949 and ending June 30, 1954, and as a result it was established that income totaling \$17,473.35 had been received during this period and was neither entered on the books of account nor had it been remitted to the State Treasurer and Receiver-General. This income included the following types:

Reimbursement for Services	\$ 8,476 35
Agents' Renewal License Fees	1,402 00
Statement Filing and Auditing Fees, and Charter and Admission Fees	7,595 00
	<u>\$17,473 35</u>

From all evidence available, this income was apparently diverted by two methods. One was to deposit such income checks into the advance fund bank account, without making corresponding cash book entries. When the checks were cashed through the advance account to the extent heretofore indicated the pattern for the deflection of the cash becomes perfectly clear. The second routine, which was employed essentially for smaller accounts was to substitute unrecorded income check items for income currency items when making the deposit to the income cash bank account.

Changes in Accounting Procedures, etc.: In connection with this examination, several shortcomings in the bookkeeping and accounting controls for income were noted. These included the following:

1. Accounts Receivable Control is generally inadequate.
2. All income does not clear through the Accounts Receivable Control Account.
3. Monthly charges to the Accounts Receivable Control account were incomplete and in certain instances appeared to be improperly developed.
4. No Accounts Receivable ledger is maintained and only a file of supposed unpaid bills represents the outstanding accounts.
5. In certain instances, bills which were stamped as paid could not be identified as entered in the cash book nor could they be located among the charges to the Accounts Receivable Account.
6. The responsibility for the handling of income cash is not clearly delineated, and at various times as many as six individuals have had access to cash in the office.
7. Receipts through mail are not listed when the mail is processed.
8. All individuals who handle cash also have access to the Accounts Receivable detailed records.
9. Receipts are not deposited intact in the regular depository.
10. Income is not promptly deposited.

It is obvious from the foregoing that had these matters been correctly and properly handled, the possibility of the income variance would have been considerably lessened. It is, therefore, suggested that the Commission on Administration and Finance survey the entire system of handling income and make any changes necessary so that proper control may be efficiently achieved and maintained. It is also suggested that this survey also take into consideration, if possible, the duties and responsibilities of those employees who are designated to handle funds.

**Statement Filing and Auditing Fees:** It was noted that no control exists for Statement Filing and Auditing fees. Such fees are generally remitted with the annual financial statements during the first four months of the calendar year. However, if that fee is not received, there appears to have been no follow-up. In this connection, it was noted that certain insurance companies have not paid these fees for several years.

It is recommended that the entire matter of these fees be reviewed immediately, and that enough system be defined so that billings will be made for delinquent fees, and to ascertain that they are collected and properly recorded.

As a matter of information, attention is directed to the fact that the Department of the Auditor actually collected and turned over to the Insurance Division \$1,555.00 of such fees which were in arrears in connection with the verification of certain accounts which appeared to be outstanding.

**Advance Fund Regulations:** It was also noted that the Comptroller's Accounting Manual, which established certain regulations for the handling of advance money, was not being respected. In this connection, the following regulations are quoted:

- (a) "The advance must not be used under any circumstances for the purpose of cashing any checks."
- (b) "The law requires that a return of advance form must be filed with the Comptroller's Bureau monthly even though the advance fund had no activity during the month."



Attention is directed to the fact that the violation of these regulations has contributed in a great measure to the difficulties encountered with respect to the cash shortage. It is, of course, needless to state, at this time, that henceforth all such directives should be strictly adhered to.

**Suspense Cash Book and General Ledger Account:** It was noted that a suspense cash book and suspense general ledger account are being maintained although it appears that there is actually no necessity for either. All income should be recorded in the income cash book and there would still be no lack of control of suspense items.

As presently constituted, the suspense general ledger account is simply a summary of two or more suspense files maintained by employees handling the various types of fees, and the suspense file maintained by the department's cashier is a duplicate and therefore is not needed. The monthly adjustments to the suspense account involving a great deal of detail must still originate from those who handle the individual suspense files.

It is, therefore, recommended that the Comptroller's Bureau also review the system of handling these suspense items, with a view toward eliminating the suspense cash book and the related general ledger account.

**Re-examination Fees - Brokers:** In checking the inventory of receipt books for Brokers' re-examination fees, it was noted that one book was missing. The book contains fifty \$2.00 receipts, with a potential value of \$100.00. No record was available of the use or issue of any receipts from this book.

It is recommended that a stricter control of all serially numbered receipt books be maintained in the future.

**Bonding of Employees:** It is suggested that the bond coverage for employees who handle cash is inadequate. On the date of audit, the custodian of the advance money was bonded for only \$2,000.00, yet there is several times that amount in the advance fund.

In this connection, the following excerpt from the Comptroller's Accounting Manual is shown:

"The custodian of the advance must be bonded in a sufficient amount to cover the funds advanced unless special exemption, in writing, has been granted by the Comptroller."

It was further noted that the deputy commissioners who are authorized to sign checks are not bonded.

It is recommended that the matter of all bond coverage be immediately reviewed, and that adequate bond coverage be provided.

**Unclaimed Checks of Former Employees:** While this audit was in progress, certain pay roll and expense checks of deceased former employees were found in the cashier's safe. These included three salary checks and four expense checks totaling \$739.48, and were dated from May 28, 1953 to August 31, 1953.

It is recommended that these checks be remitted to the State Treasurer so that their proceeds may be disposed of in accordance with existing directives.

## DEPARTMENT OF LABOR AND INDUSTRIES

### GENERAL DEPARTMENT

REPORT NO. 54-137

**Massachusetts Development and Industrial Commission:** This commission became part of the Department of Commerce under authority of Chapter 409 of the Acts of 1953. A small advance money balance on the Department of Labor and Industries books was cleared by journal entry in June 1953.

**Division of Industrial Accidents:** Chapter 314 of the Acts of 1953 established a Division of Industrial Accidents within the Department of Labor and Industries but not under its supervision or control. A separate audit was made of this Division during the 1954 fiscal year.

**Painters Riggers - Examination Failures:** It was again noted that a serially numbered card advising applicants of examination failures was not being used. This matter was again called to the attention of the proper personnel and it is understood these cards

will henceforth be used.

**Painters Riggers - Cash Overage:** On May 17, 1954 there was cash on hand in the amount of \$16.00 which had apparently become separated from related applications during the April rush period and could not be applied to any particular licenses or renewals. These funds were deposited as Miscellaneous Income on June 2, 1954.

**Apprentice Training:** Agreements expiring June 30 are made annually between this Department and the Federal Government, which provide for reimbursement of a portion of the salaries paid in the Division of Apprentice Training and also for traveling expenses of the employees concerned.

Reimbursements are authorized under the provision of Part VIII, Public Law 346, as amended, and Public Law 550, 82nd Congress, Contract V. A. No. VIOOIV - 591.

As of the audit date, reimbursement vouchers for March and April 1954, totaling \$3,239.16, had not been submitted to the Federal Government, nor had it been set up as part of the accounts receivable on the control accounts of the Department. It is understood that these vouchers are now being audited by the local Veteran's Administration auditor, and if correct will be forwarded for reimbursement.

#### STATE TEACHERS COLLEGE AT FITCHBURG

REPORT NO. 54-138

**Accounts Receivable Outstanding for More than One Year to be Sent to the Attorney General:** It was noted that there were several uncollected accounts which were more than one year old. It is recommended that these accounts be referred to the office of the Attorney General for collection or disposition.

**Out-of-State Students Paying In-State Rate for Tuition:** Certain instances were noted of students whose applications indicated them to be residents of other states who were paying the fees established for residents of Massachusetts.

Instances of a comparable nature have been commented on in previous audit reports. On these occasions the College President's attention was directed to this matter, and it was then suggested that all students' applications be scrutinized for residence.

This matter was again called to the attention of the College President and it is now understood that the status of the students concerned will be reviewed and necessary adjustments will be made in their accounts.

**Student Funds Accounts:** In connection with reconciling the cash on May 28, 1954 considerable difficulty was encountered in trying to reconcile the cash in the bank pertaining to these funds with the cash book balance. In this connection it was also noted that a previous audit of these accounts had been made by a public accountant on August 31, 1953. However, it was noted that the cash book at this point indicated that the student bookkeeper had brought forward certain totals and footings to the subsequent period which were not in agreement with the amounts established by the public accountant. Using the totals established at the time of the previous audit and ignoring all footings or totals since then, each and every deposit was traced from the cash book to the bank statements and the payments checked to the canceled checks. The correct balance was identified in the cash book by posting these deposits and payments which had not been entered. Despite this, however, there was still a variance which was traced to a savings bank account of \$700.00 which was not a matter of record. This amount was subsequently entered properly and the reconciliation was finally effected. In this connection it was noted that this savings bank account was not presented for examination at the time of the previous audit of August 31, 1953 and, of course, the cash balance as shown in the report of the public accountant did not include it.

It is therefore recommended that the cash be balanced at more frequent intervals.

It was also noted that there were certain outstanding checks which were more than one year old, and it is further suggested that payment be stopped on them and the proceeds properly disposed of.

It was also noted that checks were signed in blank in advance of their issue. It is recommended that this practice be discontinued. This situation also applies to the checking accounts maintained by the Students' Book Shop.

#### STATE TEACHERS COLLEGE AT FRAMINGHAM

REPORT NO. 54-139

**Boarding Hall:** It was noted that there were nine students living at private homes, because of the lack of adequate dormitory facilities, seven of whom were residents of Massachusetts.



In this connection it was also noted that there were five students who are non-residents of Massachusetts that reside in said dormitories.

It is understood that the policy is to give upper class students first preference in the assigning of dormitory rooms. It is suggested, however, that residents of Massachusetts be given preference in the assigning of dormitory rooms.

#### DEPARTMENT OF PUBLIC UTILITIES

REPORT NO. 54-140

General: The previous audit report stated:

"During the current audit period the miscellaneous Cash Receipts book, which was in use in prior audit, has been discontinued, it was learned. It is nevertheless suggested that such a book is necessary and should be reinstated."

It was understood that a representative of the Comptroller's Bureau decided this was not necessary.

The previous audit report also stated:

"It is recommended also that duplicate copies of all receipts be kept on file in the main office of the Department for all returns received from the various divisions."

It was understood that this recommendation will be put into effect July 1, 1954.

#### MOUNT GREYLOCK TRAMWAY AUTHORITY

REPORT NO. 54-141

Bond Issue: As of May 24, 1954 the Authority had not authorized the issuance of bonds for the construction of the tramway. The bond issue has been held up until certain legislative changes are approved in the original Act creating the Authority.

#### STATE HOUSING RENT CO-ORDINATOR

REPORT NO. 54-142

Function of the Rent Co-ordinator: Paragraph (b) of Section 3 of Chapter 434 of the Acts of 1953 which outlines the functions of the Rent Co-ordinator reads as follows:

"The co-ordinator may prescribe such forms to be used consistent with the provisions of this act as he deems necessary or desirable to effectuate the provisions hereof. He shall be available, in an advisory capacity, to city and town rent boards for the purpose of attaining, as nearly as practicable, uniformity in establishing rents, and rules and regulations. The co-ordinator shall co-operate with the federal government in effectuating the purposes of this act, and shall endeavor to procure and may accept from officers and agencies of the federal government such co-operation, information, records, data and equipment as will assist the local rent boards in effectuating such purposes."

Reimbursements to Cities and Towns: Section 4 of Chapter 434 of the Acts of 1953 provides for the reimbursement of 40% of the amounts expended by the cities and towns for rent control. In this connection it was noted that there has been a sum of \$100,000.00 appropriated for this purpose for the fiscal year ending June 30, 1954. As of the date of audit, there have been no reimbursements made to the cities and towns.

#### SCHOOL BUILDINGS ASSISTANCE COMMISSION

REPORT NO. 54-144

Construction Grants: To June 9, 1954 the General Court has appropriated \$10,100,000.00 to be used as financial assistance for the construction of public school buildings by the various cities and towns within the Commonwealth. Appropriations were made effective in 1950 and have been constantly increased to date.

This Commission, in compliance with Chapter 645 of the Acts of 1948, as amended, has expended to date a total of \$7,874,054.90 for such assistance. In addition encumbrances have totaled \$999,639.04.

Grants by the Commonwealth in excess of \$31,400,000.00 have been approved for completed projects based on construction costs in excess of \$92,600,000.00.

During the period under audit payments were made on certain uncompleted projects

having an estimated construction grant of over \$10,000,000.00 based on an estimated cost of over \$24,000,000.00.

In addition to the foregoing, it is estimated that additional grants of more than \$34,600,000.00 will be made on estimated costs of \$109,100,000.00 for projects now in the process of construction.

**Certification of School Construction Costs:** Several cities and towns have apparently been delinquent in filing with this Commission the necessary reports showing final construction costs of schools built under the School Building Assistance program.

A cursory review of the Commission's records indicated that from 1 to 5 annual payments ranging from approximately \$1,600.00 to \$16,000.00 each were owing to certain cities and towns as of the date of audit.

**Financing:** Generally the cities and towns issue bonds to finance construction of school buildings. The grants made by the Commonwealth are paid in installments over the life of such bonds unless the project is financed to the extent of fifty per cent or less of the approved cost. In the latter case, the grant would be paid in five equal annual installments.

**Reimbursements to Cities and Towns:** The statute which created this Commission does not state from what source the school construction grants are paid.

However, each year when the General Court appropriated money for reimbursement to certain cities and towns for part of the cost of construction of school projects, it has stated that a sum equivalent to the expenditures under this item be transferred to the General Fund from the receipts of the income tax.

Under Section 18 of Chapter 58 of the General Laws, the proceeds from taxation on income under Chapter 62 (after making certain deductions, the principal one of which is for Education under Chapter 70 of the General Laws) are distributed to the cities and towns on the basis of their equalized valuation as stated in Chapter 559 of the Acts of 1945.

Prior to the creation of the School Buildings Assistance Commission, the various cities and towns would have received their respective statutory allocations without any deductions for school construction grants. It therefore appears that the cities and towns are now supporting, by failing to receive what would ordinarily have been potential receipts, the School Building appropriations as appropriated by the Legislature.

## MASSACHUSETTS HOSPITAL SCHOOL

REPORT NO. 54-145

**Accounts Receivable:** It was noted that the balances owed by private individuals which were in the hands of the Attorney General at the date of audit totaled \$19,342.58. This amount represents an accumulation of a number of years. The transactions in this class of accounts during the audit period involved collections or cancellations by direction of the Attorney General in the amount of \$574.48.

**Materials and Supplies Inventory:** It was noted that certain so-called "surplus" items, which are received without cost except for a small service charge, were combined in the storeroom and entered upon the stock ledgers together with like items purchased at the regular market prices. Because of this procedure the value of the inventory as entered upon the stock ledger is distorted. Accurate control requires that items should be separated and it is therefore suggested that steps be taken in that direction.

**Meal Tickets:** In order to insure against the possibility of misuse of meal tickets it is recommended that they be visibly canceled, perhaps by punching a hole through them. At the present time they are not canceled in any way after they have been presented in payment for a meal.

**Board of Patients:** An examination of board bills mailed by the institution indicated that in certain cases only the amount due for that month was shown, rather than the entire balance due. As a result, complete payment in these cases was not always received. It is suggested that all bills should indicate the amount due for the entire period for which the charges have been unpaid.

**Maintenance Pay Roll:** It was noted that three checks totaling \$320.10 were paid during the month of March 1954 to a person not listed as an employee on the maintenance pay roll. It was learned that this was purportedly done in pursuance of instructions in a



letter dated March 8, 1954 from the Department of Public Welfare. It was noted that this letter did not specifically state that such payments were to be made from: maintenance appropriation but, apparently because of certain circumstances which developed as a result of a misunderstanding between the Division of Building Construction and the Department of Public Welfare, there were no other funds available from which to make these payments.

The employee in question was a Clerk of the Works on the construction of a power plant, Project C-401, and the Division of Building Construction had apparently agreed to permit him to continue in that capacity until Project C-202, the new infirmary, was started. However, when a cash advance was requested for the latter project in order to continue his salary at the rate of \$125.00 per week, it was disapproved because there was no further work to be done by him until Project C-202 was started. However, the institution treasurer was not notified of this situation until a letter dated April 5, 1954 was received, wherein she was informed that the services of this employee would terminate as of April 1, 1954. At this point she requested and received reimbursement from the engineering firm who performed the work on Project C-401 for the payments made in March 1954. It was also learned that this firm was in turn reimbursed by the Commonwealth.

**Farm Report:** An examination of the farm costs for the 1953 farm year as indicated in the annual farm report indicated production costs in certain instances as follows:

Pork	\$ .19 per pound
Milk	.14 per quart
Eggs	.46 per dozen

It would appear that the farm census report failed to record the sale of a calf in December of 1953 until January of 1954. All farm sales should be recorded in the census report in the proper month.

**Minutes of the Trustees Meetings:** The minutes of the meetings held by the trustees of this institution were reviewed. It was noted that the trustees had not signed any of them.

## DEPARTMENT OF COMMERCE

REPORT NO. 54-146

**Bookkeeping:** It was noted that the receipts and disbursements for the month of June had not been entered in the cash book, nor had postings been made to the general ledger in that month.

Because of the omission of certain entries and the difficulties encountered in locating vouchers for the period from May 26, 1953 to June 30, 1953, this examination of the department accounts was greatly retarded while the audit was in progress; however, petty cash and travel vouchers were finally located for these expenditures which were included in the Return of Advance Vouchers for the audit period.

**Receipt Books:** It was noted that receipt books had been used during the period of audit as follows within the department:

Research Division  
Development Division  
Planning Division  
Main Office  
Supply Room  
Switchboard

It is suggested that petty cash payments be made at only one location, and that they be made by the employee responsible for the control of the advance money.

It was noted in this connection that the only person bonded was the senior bookkeeper who handles the advance money.

**Sale of Maps - Planning Division:** A small amount of income is collected for the sale of maps. However, no record has been kept of the maps issued gratis, nor has an inventory of maps ever been taken. It is therefore suggested that a record be maintained of maps issued at no charge, and also that an inventory be taken of them at least four times each year.

**Consultant Services:** The department employed several consultants during the period, and for the eleven months ending May 31, 1954 a total of \$30,445.81 was spent or encumbered from the appropriation of \$32,500.00.

The agreements examined indicated fees had been paid at varying hourly and per diem rates. These agreements, however, did not specify the number of hours or days of employment, and included only the signature of the person named as consultant.

It is suggested that a contractual form of agreement be used, specifying the total hours or days of employment and a termination date, together with signatures of all concerned parties. Time records of the days and hours worked by the consultants should be maintained, and all approval of payments for such services should be premised on these records.

**Classified Pay Rolls:** It was noted that records of days absent, sick leave, and vacation time are maintained, but no daily time records of those included in classified pay roll are available.

**Massachusetts Business Development Corporation:** Chapter 671 of the Acts of 1953 created this corporation. Section 4 (h) of that statute indicates as one of the purposes of this corporation:

"To co-operate with and avail itself of the facilities of the Department of Commerce . . ."

Section 14 of the Acts says:

"The corporation shall be subject to the examination of the Commissioner of Commerce and shall make reports of its condition not less than annually to said commissioner, who in turn shall make copies of such reports available to the Commissioner of Insurance and the Commissioner of Banks, and the corporation shall also furnish such other information as may from time to time be required by the Commissioner of Commerce."

It was noted that a prospectus issued by the corporation dated October 26, 1953 included a certificate from an independent public accountant to the effect that an examination of the statement of assets and liabilities as at September 15, 1953 had been made by them.

#### INDUSTRIAL SCHOOL FOR BOYS

REPORT NO. 54-147

**Accounting for Meals Served Through the Use of Tickets - Meals Served Without Charge:** The procedure of checking on the number of meals served in relation to the tickets collected was reviewed. In this connection it was noted that the employee in charge of the Administration dining room keeps a monthly work sheet to which is posted daily the number of meals served to employees using meal tickets. This sheet also indicates the number of meals served to inmates working in the kitchen and dining room together with those who eat meals without tickets. This sheet is typewritten and is submitted monthly to the institution bookkeeper. The collected tickets are submitted at various intervals and do not necessarily include the exact period of the report. It was also understood that these tickets are destroyed without verification by the bookkeeping office so that it is not determined that the meals served, as indicated on the reports, reconcile with the tickets returned. The tickets submitted for the month of May 1954 were not available for checking; however, the monthly report for that month showed 33 meals had been served to other than regular institution employees or inmates for which no tickets were used. These included clergymen who are paid for their services and unpaid individuals who apparently visit the institution once a week to foster a religious program. No approvals were noted in the files of the institution to permit the serving of meals to the latter group.

It is recommended that this matter be reviewed and that steps be initiated to reconcile the number of meals served as reported with those tickets used. It is further recommended that the institution obtain approvals from the Commission on Administration and Finance in instances where meals are served without charge.

**No Approval for Room Reserved for Clergyman on Quarters Register:** It was noted that a room had been assigned to a clergyman, currently employed at this institution, for



which no charge was made. It is the practice to obtain approval from the Commission on Administration and Finance in such instances. This matter was also called to the attention of the Superintendent at the time of the previous examination and it was suggested that an approval be obtained. To date no action has been taken in this direction.

**Inmates' Funds not Transferred to the State Treasurer:** It was noted that there were four accounts totaling \$3.26 which should have been transferred to the State Treasurer in accordance with Section 23A of Chapter 120 of the General Laws, as amended.

The status of these accounts was called to the attention of the proper personnel and it was understood that they will be included with the next annual list of such accounts remitted to the State Treasurer.

**Inmates' Fund - Cash Received for Inmates Erroneously Credited to Wrong Accounts:** In checking inmates' receipts as recorded in the cash book to the inmates' individual ledger cards, instances were noted of postings to the wrong inmates' accounts because of error.

In one instance two receipts of \$1.00 were posted to the account of an inmate. This inmate has been discharged since that time and his balance was then withdrawn together with the \$2.00 belonging to the proper inmate who was still in the institution on the date of audit.

Another instance was noted of \$2.00 being posted incorrectly to the account of an inmate who had likewise been discharged and who also withdrew the balance of his account at that time. The inmate to whose account the \$2.00 should have been posted was in the House of Correction on date of audit.

It is recommended that steps be initiated to recover the aforementioned amounts from the inmates who received credit for them and that the amounts so recovered be credited to the inmates' accounts to whom they rightfully belong.

It is also recommended that more care be exercised in the posting of money received in order to insure the posting of the money to the account of the inmate to whom it rightfully belongs.

## STATE HOUSING BOARD AND LOCAL HOUSING AUTHORITIES

Audit of Housing Authorities: Chapter 682 of the Acts of 1949 provides as follows:

"SECTION 1. Section 26NN of chapter 121 of the General Laws, inserted by section 3 of chapter 200 of the acts of 1948, is hereby amended by inserting after subdivision (c) the following subdivision:-

(d) A housing authority which sells bonds or notes to finance a project under authority of this section, or which has received funds from a city or town under authority of chapter three hundred and seventy-two of the acts of nineteen hundred and forty-six as amended, shall cause an audit to be made of its accounts annually at the close of a fiscal year by the department of the state auditor and a copy of the report of said audit shall be filed promptly with the board.

"SECTION 2. Section 8D of chapter 372 of the acts of 1946, inserted by section 4 of chapter 479 of the acts of 1947 is hereby repealed."

During the complete fiscal year ending June 30, 1954, the terms of the Act were fully complied with and every active local Authority, in a total of 92, was audited and a report issued.

In addition, seventeen other local Authorities were visited and were found to be inactive during the fiscal year and therefore required no audit.

One special audit was required during the fiscal year:

North Attleborough Housing Authority

General: Individual copies of audit reports for the State Housing Board and all local Housing Authorities have been submitted to His Excellency the Governor, the Lieutenant-Governor, the President of the Senate, the Speaker of the House, the State Librarian, the Chairman of the State Housing Board, and the Senators, Representatives and all interested city officials and members of local Housing Authorities.



Summary of Audits Completed: The following listed audits have been made since my last report to the legislature:

SCHEDULE OF HOUSING AUTHORITY AUDITS COMPLETED --- FISCAL YEAR 1953-1954

	From	To	Page No.
State Housing Board	June 30, 1952	June 30, 1953	196 - 202
Emergency Housing Commission	Dec. 22, 1952	June 30, 1953	-
LOCAL HOUSING AUTHORITIES:			
Agawam	June 30, 1952	June 30, 1953	210 - 211
Amesbury	Sept. 30, 1952	Nov. 30, 1953	251 - 252
Andover	Sept. 30, 1952	Oct. 31, 1953	242
Arlington	Feb. 28, 1953	Dec. 31, 1953	257 - 259
Athol	Apr. 30, 1953	Dec. 31, 1953	269 - 270
Attleboro	June 30, 1952	June 30, 1953	208
Barnstable	Apr. 30, 1953	Mar. 31, 1954	303 - 304
Bedford	Sept. 30, 1952	Sept. 30, 1953	236 - 237
Belmont	Mar. 31, 1953	Jan. 31, 1954	272 - 273
Beverly	Aug. 31, 1952	Sept. 30, 1953	227 - 228
Boston	Mar. 31, 1953	Apr. 30, 1954	306 - 311
Braintree	Apr. 30, 1953	Feb. 28, 1954	300
Brockton	Aug. 31, 1952	Aug. 31, 1953	224
Brookline	Apr. 30, 1953	Feb. 28, 1954	288 - 290
Cambridge	June 30, 1952	June 30, 1953	203 - 207
Canton	Mar. 31, 1953	Jan. 31, 1954	278 - 279
Chelsea	July 31, 1952	July 31, 1953	212 - 216
Chicopee	Apr. 30, 1953	Feb. 28, 1954	282 - 283
Clinton	June 30, 1952	June 30, 1953	209 - 210
Dalton	Mar. 31, 1953	Apr. 30, 1954	313 - 314
Dedham	Mar. 31, 1953	Feb. 28, 1954	280 - 281
Easthampton	May 31, 1953	May 31, 1954	314 - 315
Everett	Sept. 30, 1952	Aug. 31, 1953	225 - 226
Fall River	Nov. 30, 1952	Nov. 30, 1953	254 - 255
Falmouth	May 31, 1953	Mar. 31, 1954	303
Fitchburg	June 30, 1952	June 30, 1953	208 - 209
Frammingham	Jan. 31, 1953	Oct. 31, 1953	247 - 249
Franklin	May 31, 1953	Feb. 28, 1954	290
Gardner	Mar. 31, 1953	Oct. 31, 1953	240 - 241
Gloucester	Sept. 30, 1952	Sept. 30, 1953	230 - 234
Grafton	Aug. 31, 1952	Sept. 30, 1953	230
Greenfield	Feb. 28, 1953	Dec. 31, 1953	266 - 267
Haverhill	Nov. 30, 1952	Dec. 31, 1953	261
Holyoke	May 31, 1953	Apr. 30, 1954	304 - 306
Hull	Apr. 30, 1953	Feb. 28, 1954	290
Ipswich	May 31, 1953	Feb. 28, 1954	287 - 288
Lawrence	Oct. 31, 1952	Sept. 30, 1953	228 - 229
Leominster	Mar. 31, 1953	Dec. 31, 1953	262 - 263
Lowell	Mar. 31, 1953	Feb. 28, 1954	283 - 285
Lynn	Dec. 31, 1952	Oct. 31, 1953	242 - 245
Malden	Mar. 31, 1953	Jan. 31, 1954	270 - 272
Mansfield	Mar. 31, 1953	Mar. 31, 1954	300 - 301
Marblehead	Dec. 31, 1952	Nov. 30, 1953	255 - 257
Marlborough	Apr. 30, 1953	Feb. 28, 1954	298
Mattapoisett	Feb. 28, 1953	Mar. 31, 1954	300
Medford	Apr. 30, 1953	Dec. 31, 1953	267 - 269
Methuen	Jan. 31, 1953	Nov. 30, 1953	252
Middleborough	July 31, 1952	Sept. 30, 1953	237
Millford	Aug. 31, 1952	Sept. 30, 1953	235
Millbury	May 31, 1953	Feb. 28, 1954	286 - 287
Montague	Dec. 31, 1952	Oct. 31, 1953	245 - 246
Nahant	May 31, 1953	Feb. 28, 1954	287
Nantucket	Sept. 30, 1952	Sept. 30, 1953	237 - 238
Natick	Aug. 31, 1952	Sept. 30, 1953	234 - 235
Needham	Apr. 30, 1953	Feb. 28, 1954	286
New Bedford	Jan. 31, 1953	Jan. 31, 1954	275 - 276
Newburyport	Feb. 28, 1953	Jan. 31, 1954	273 - 274
North Adams	Mar. 31, 1953	Feb. 28, 1954	291
Northampton	Jan. 31, 1953	Oct. 31, 1953	246 - 247
North Andover	May 31, 1953	Feb. 28, 1954	285 - 286
North Attleborough	May 31, 1953	Feb. 28, 1954	291 - 292
Special Cash Audit		July 7, 1953	-
Northbridge	Feb. 28, 1953	Jan. 31, 1954	274 - 275
Norwood	May 31, 1953	Feb. 28, 1954	296 - 298

	From	To	Page No.
<b>LOCAL HOUSING AUTHORITIES:</b>			
(Continued):			
Peabody	Oct. 31, 1952	Oct. 31, 1953	249 - 251
Pittsfield	Mar. 31, 1953	Apr. 30, 1954	311 - 312
Plymouth	Mar. 31, 1953	Mar. 31, 1954	292 - 295
Quincy	July 31, 1952	July 31, 1953	211 - 212
Revere	Oct. 31, 1952	Oct. 31, 1953	238 - 240
Rockport	May 31, 1953	Feb. 28, 1954	281
Salem	June 30, 1952	June 30, 1953	202 - 203
Somerville	June 30, 1952	July 31, 1953	216 - 220
Springfield	Oct. 31, 1952	Sept. 30, 1953	235 - 236
Stoneham	Oct. 31, 1952	Oct. 31, 1953	240
Stoughton	Aug. 31, 1952	July 31, 1953	222 - 223
Swampscott	Sept. 30, 1952	Sept. 30, 1953	226 - 227
Taunton	Oct. 31, 1952	Oct. 31, 1953	241 - 242
Uxbridge	Feb. 28, 1953	Jan. 31, 1954	277 - 278
Walpole	Oct. 31, 1952	Jan. 31, 1954	279 - 280
Waltham	May 31, 1953	Jan. 31, 1954	276 - 277
Watertown	Feb. 28, 1953	Dec. 31, 1953	264 - 265
Webster	May 31, 1953	Mar. 31, 1954	299 - 300
Wellesley	Dec. 31, 1952	Dec. 31, 1953	259 - 261
Westborough	Apr. 30, 1953	Feb. 28, 1954	285
Westfield	Apr. 30, 1953	Apr. 30, 1954	312 - 313
West Springfield	July 31, 1952	June 30, 1953	207 - 208
Weymouth	May 31, 1953	Mar. 31, 1954	301 - 303
Wilmington	Apr. 30, 1953	Jan. 31, 1954	278
Winthrop	Feb. 28, 1953	Dec. 31, 1953	263
Woburn	Jan. 31, 1953	Nov. 30, 1953	252 - 254
Worcester	Oct. 31, 1952	July 31, 1953	220 - 222

The following comments, exceptions and recommendations were included in the reports issued in connection with these examinations.



## STATE HOUSING BOARD

REPORT NO. 54-H-1

Chapter 372 - Projects Not Certified: The previous audit report stated that there was still one project authorized by Chapter 372 which had not been certified. This project together with its present status follows:

Boston - Morton Street - 108 Units (Tentative): Although actual construction had not yet begun expenditures have been made as follows:

Administration Expenses	\$ 457 13
Architectural and Engineering	68,373 33
Acquisition of Site	90,241 63
Total	<u>\$159,072 09</u>

This project was officially abandoned as indicated by a letter from the Mayor of Boston dated July 15, 1953.

While no subsidy has been paid on this project it is anticipated one will be requested in 1954 to include the foregoing expenditures. These expenditures will also probably be increased because of fees pending for Architectural and Engineering services.

Title V and Temporary Dwellings: In addition to those projects upon which subsidy payments are made by the Commonwealth, the following projects are operated under the supervision of the State Housing Board, under authority of Chapter 372 of the Acts of 1946.

Title V: These projects were originally erected through the cooperation and under the control of the Federal Government but were later transferred to the respective cities and towns under the management of the local housing authorities.

Any surplus realized from operations is turned over to the local city or town treasurer. As of June 30, 1953 there was a total of 1,901 units in this category.

Temporary Dwellings: Units described as Temporary Dwellings are also covered by Chapter 372 and are likewise supervised by the State Housing Board. These units are generally owned by the cities and towns and include Municipal Buildings converted for occupancy. The net income derived from such projects is turned over to the local government concerned. As of June 30, 1953 there was a total of 45 such units throughout the Commonwealth.

Chapter 372 - Sales of Houses: Under Chapter 372, when units are sold by a local authority the funds received are remitted to the treasurer of the city or town concerned.

To the date of audit the following sales had been made to veteran occupants with the approval of the State Housing Board:

<u>City or Town</u>	<u>No. of Houses</u>	<u>Total Received</u>
Amherst	20	\$179,600 00
Concord	6*	43,700 00

\* Another sale has been made but the final papers have not cleared nor has the money been received. It is further understood that other sales are pending.

Subsidy Payments - Chapter 200: The first subsidy payments to local housing authorities were made during the fiscal year of 1951. To the date of this audit subsidy payments have been made as follows:

Fiscal Year 1951	\$ 591,625 00
Fiscal Year 1952	1,562,445 57
Fiscal Year 1953	<u>1,904,306 99</u>
Total	<u>\$4,058,377 56</u>

It is further estimated that the subsidy payments for the fiscal year 1954 will be approximately \$2,820,000.00.

Because the final date for filing for new projects has elapsed and the total estimated costs of the completed projects and those under construction will not exceed \$200,000,000.00 the subsidy payments on a 2 1/2% basis could reach in any one year \$5,000,000.00. However, in view of subsidies which will not be necessary because of income applied, the annual payments after all projects are completed will probably average between \$4,000,000.00 and \$4,500,000.00.

As a matter of information in connection with subsidy payments, etc., the following procedures were being used by the Board:

Full subsidy - 2 1/2% bonds or notes - allowed first year, thereafter, if the project operated on an income basis, the surplus at the end of their fiscal year was analyzed, adjustments made where necessary to the reserves and the balance used as a reduction of the subsequent year's subsidy.

To date the surpluses used as reduction of subsidies amounted to \$402,709.94 as shown in Schedule No. IX appended to this Report. This amount will undoubtedly increase annually after the projects have passed the first year of their permanent financing status.

Where subsidies are received by projects prior to the time of their need and unused surpluses from the prior year are reserved, the funds are invested in Short Term U. S. Certificates or deposited in local Savings Banks until the funds are needed for payment of coupons or bonds.

Previous audit reports commented on the fact that under the terms of the Contracts for Financial Assistance the entire subsidy payment is paid to the Fiscal Agent of the Authority five months and fifteen days after the beginning of each fiscal year, even though only 15% of the subsidy payment is needed by the Agent at that time. These reports further stated that 85% of this payment is held by this Agent for six months and fifteen days, and also directed attention to the fact that this money is not earning interest nor has it been invested where it may accrue interest to the benefit of the local Authority or the Commonwealth.

The methods employed in the making of these subsidy payments has also been directed to the attention of the State Housing Board in several of the audit reports issued by the Department of the State Auditor as a result of examinations made of local housing authorities. As a result certain changes have been instituted.

In this connection attention is called to the fact that beginning with the bond issue of July 1, 1952, the State Treasurer will make the payments of the annual subsidy as follows: 25% five months after the bond date, and the remaining 75% six months thereafter.

This is a most desirable amendment to the Contract for Financial Assistance, inasmuch as it permits Commonwealth funds to remain active until such time as they are actually required.

Attention is also directed to the fact that those projects which have been entered into permanent financing on the Note basis will not actually receive any part of their subsidy until the twelfth month when it will be paid in its entirety.

However, on all of the projects which went into permanent financing prior to July 1, 1952, the former method of paying 100% of the subsidy five months and fifteen days after the date of issue has been continued. In this connection the Attorney General was requested to furnish an opinion as to the legality of changing these subsidy payments by amendment to those Contracts for Financial Assistance in effect prior to July 1, 1952. This opinion rendered as of December 6, 1951 indicates that the manner of payment may be changed simply by revision of the Contracts for Financial Assistance. A copy of this opinion follows:

COPY

December 6, 1951

MEMORANDUM

TO: John F. X. Gaquin, Director  
State Housing Board

FROM: Thomas C. Dolan,  
Assistant Attorney General



SUBJECT: Annual Subsidy under Chapter 200  
Time of Payment by Commonwealth of Massachusetts

This is not a formal opinion of the Attorney General.

Your memorandum of November 27, 1951 requests the opinion of this office as to the legality of changing the time of payment of subsidy by the Commonwealth by amendment to Contracts for Financial Assistance of projects which have permanent bonds currently outstanding.

Sub-section (b) of Paragraph (1) of the Contract for Financial Assistance reads in part:

"The Commonwealth will pay to the Authority or to the Fiscal Agent named by the Authority in its bond resolution annual contributions on the following dates and in the following amounts: on the date five (5) months and fifteen (15) days after the date of the bonds and on the same day in each year thereafter during which any bonds remain outstanding ..., such annual sum,..."

Paragraph (15) of the same Contract provides:

"Any provision of this Contract not required by the terms of the Law may be waived in writing by the Chairman. None of the provisions of this Contract shall be modified or waived at any time after the sale of any of the notes or bonds issued with respect to this project to such extent or in such manner as would impair or prejudice the rights of the holder or holders of such notes or bonds."

This Contract is incorporated into the Bond Resolution by reference in the preamble to the Resolution.

The Commonwealth in its guarantee merely unconditionally guarantees the punctual payment of principal and interest.

It would appear from the foregoing that the bond holders accepted the bonds with actual or constructive notice of the existence of the Contract for Financial Assistance; that the Contract for Financial Assistance itself provides for modification or waiver by the Chairman, with the restriction that such modification or waiver, after the sale of notes or bonds, cannot impair or prejudice the rights of the holder or holders of such notes or bonds; and that the only rights of the bond holders in connection with this question are the rights of punctual payment or principal and interest.

It is, therefore, our opinion that it would be legal to change the time of payment of subsidy by the Commonwealth by amendment to Contract for Financial Assistance, if such amendment in no way affected the punctual payment of the principal and interest on the bonds.

TCD:JL

Thomas C. Dolan  
 Assistant Attorney General

Progress of Chapter 200 Projects: According to the records the status of the Chapter 200 Projects as of June 30, 1953 follows:

Number of Communities with Projects in Construction Stage	5
Number of Projects in Construction Stage	7
Number of Units in Projects in Construction Stage	1,350
Number of Projects Completed for Occupancy	130
Number of Units Completed for Occupancy	14,000

In addition to the foregoing there were four projects on which construction had not been started. These latter units will total approximately 750, which should increase the total at completion to approximately 16,100.

Administration Fund Agreements: The examination of these agreements indicated that certain projects have not been included. As a result, the funds of these projects are not being deposited in approved banks. This matter was brought to the attention of the proper personnel and it is understood that steps are being taken to obtain the unavailable agreements.

Issue of Bonds and Notes Under Permanent Financing: As of July 1, 1953, 112 projects were in permanent financing as follows:

102 Projects - Bonds Issued	\$113,566,000 00
10 Projects - Notes Issued	18,635,000 00
	<u>\$132,201,000 00</u>

These bonds included 9 group issues made on a serial basis and maturing over a period of forty years, as follows:

<u>Date of Issue</u>	<u>Amount</u>	<u>Rate of Interest</u>	<u>Maturities</u>
Oct. 1, 1950	\$ 10,109,000 00	1 3/4%	Oct. 1, 1951/90
Jan. 1, 1951	13,556,000 00	1 3/4%	Jan. 1, 1952/91
Apr. 1, 1951	9,251,000 00	1 7/8%	Apr. 1, 1952/91
July 1, 1951	7,789,000 00	2 1/8%	July 1, 1952/91
Oct. 1, 1951	13,264,000 00	2 %	Oct. 1, 1952/91
Jan. 1, 1952	10,357,000 00	2 1/4%	Jan. 1, 1953/92
Apr. 1, 1952	7,700,000 00	2 1/8%	Apr. 1, 1953/92
July 1, 1952	10,722,000 00	2 1/4%	July 1, 1953/92
Oct. 1, 1952	30,818,000 00	2 1/4%	Oct. 1, 1953/92
	<u>\$113,566,000 00</u>		

The notes issued were in three groups as follows:

<u>Date of Permanency</u>	<u>Amount</u>	<u>Net Rate</u>	<u>Maturity</u>
Jan. 1, 1953 (1)	\$ 8,273,000 00	.8479%	Jan. 26, 1954
Apr. 1, 1953 (2)	700,000 00	.7442%	Oct. 26, 1954
July 1, 1953 (3)	2,162,000 00	1.839%	July 27, 1954
July 1, 1953 (3)	7,500,000 00	1.879%	July 27, 1954
	<u>\$18,635,000 00</u>		

It will be noted from the foregoing that although \$18,635,000.00 is covered by notes, they were with one exception issued for one year. It is understood that notes were issued for projects in permanent financing for the following reasons:

According to the Contracts for Financial Assistance bonds could not be issued at an interest rate to exceed 2 1/2% per annum. When bids were received for bonds to be issued January 1, 1953 they were quoted in excess of 2 1/2% and therefore could not be accepted. Therefore notes were issued as indicated, the projects went into Management and are treated the same as though bonds had been issued - as to the permanent status. If at a subsequent date, these notes are replaced with bonds, the ordinary forty year period of borrowing will be reduced by the number of years covered by notes issued.

It will also be noted that the interest rates on the notes was substantially less than bond rates. In this connection attention is directed to the fact that had the bonds been issued rather than notes at a 2 1/2% rate the interest would have amounted to \$465,875.00 for the first year while on the notes issued the net interest would total only \$256,040.35.

Although the bonds issued were in the names of the various local housing authorities, they are nevertheless guaranteed as to payments of interest and principal by the Commonwealth of Massachusetts and are therefore a definite contingent liability of the Commonwealth.

In this connection attention is called to the fact that bonds issued directly by the State Treasurer, on dates comparable with those on which bonds were issued by the local housing authorities, showed a rate of interest which averaged 1/2% below the lowest bids on housing bonds.



Inasmuch as it will undoubtedly be necessary to borrow at least \$85,000,000.00 more, it is suggested that serious consideration be given to a revision of existing legislation to provide that further borrowings be made directly by the Commonwealth in order to take full advantage of its better credit.

In connection with the foregoing, with respect to future financing, reliable financial publications have recently indicated that bonds bearing the names of highly regarded communities are selling at a premium, while those with poor credit standing have been selling cheaply. Investors are, therefore, apparently ignoring the guaranty of the Commonwealth. If, however, all bonds were issued directly by the Commonwealth, the bonds of all municipalities would be issued at comparable prices.

Attention is also directed to the fact that bond counsel fees which are substantial are paid on respective bond issues. These items would undoubtedly be reduced or eliminated if the financing were handled by the Commonwealth, as these opinions would be rendered by the Department of the Attorney General. As a matter of information, although outside bond counsel opinions are presently obtained, representatives of the Attorney General who are assigned to the State Housing Board also check the legality of the borrowings, etc.

Bond counsel fees paid on the issues presently outstanding totaled approximately \$87,000.00 and the total of all comparable fees paid to date of audit of temporary notes or bonds totaled \$220,000.00.

In further connection with fees paid to bond counsel, it was noted that since April 1953 a Boston bond counsel has been engaged rather than the New York counsel previously employed.

A comparison of fees charged by the Boston counsel and those that would have been charged by the New York counsel together with the resultant reductions in cost because of this recent change follows:

<u>Issue Dated</u>	<u>Fee Old Basis</u>	<u>Fee New Basis</u>	<u>Resultant Reduction</u>
April 1953 \$ 700,000 00	\$ 210 00	\$ 120 00	\$ 90 00
June 1953 9,994,000 00	2,998 20	1,349 40	1,648 80
June 1953 13,003,000 00	3,900 90	1,550 30	2,350 60
June 1953 857,000 00	257 10	135 70	121 40
<u>\$24,554,000 00</u>	<u>\$7,366 20</u>	<u>\$3,155 40</u>	<u>\$4,210 80</u>

Accounts Receivable: The balance in this account represented charges to the various municipal projects for the services of construction advisers. This account was analyzed and verification notices were released on all balances with two exceptions. From the replies received the following information was obtained:

Items had been charged to certain projects and payment was refused because it was indicated that the services had not actually been rendered. These contentions were apparently correct for the charges included dates subsequent to entry into permanent financing, when there is obviously no need for construction advisers' services. These items totaled \$2,833.40 which it is understood will be canceled. They involved the following:

<u>Project</u>	<u>Charge</u>
Everett 200-2	\$1,371 74*
Gardner 200-3	899 76*
Haverhill 200-2	223 20#
Taunton 200-2	338 70#
	<u>\$2,833 40</u>

\* These are the two items heretofore mentioned on which verification notices had not been released. The charges had previously been questioned and investigated and were found to be incorrect. Approval to write them off is pending.

# These items were developed from replies to requests for verification. It was also noted that the charges included periods long after the projects had entered into permanent financing.

In one instance the reply to a verification notice indicated a charge had been made to the Millbury 200-1 Project instead of Boston 200-10 Project. This was adjusted while the audit was in progress.

Previous audit reports have commented upon the laxity in handling charges for the construction advisers' services and it is again suggested that if after investigation it develops that employees did not perform the services for which they were paid in the first instance by the Commonwealth, arrangements should be made for restitution of the amounts so overpaid.

In addition to the foregoing an analysis of all construction advisers' salaries and expenses showed that including the \$2,833.40 incorrectly charged, only 67% of the total had been charged to respective projects. This possibly indicates an excess of personnel in this category. Steps have been taken to correct this situation but further checking in this direction is definitely in order.

**Operating Reserves:** In several audit reports of the respective local housing authorities, comments have been included concerning amounts which the State Housing Board directed be set up as operating reserves at the end of the respective initial operating periods. These audit reports have also indicated that the amounts which were originally established in these reserves were in many instances not based upon any predetermined formula, but rather upon the profits remaining from the initial operating period.

The management program adopted by the authorities for the projects entering permanent financing stipulates that these operating reserves shall not exceed \$300.00 per unit, and also provides that \$60.00 per unit shall be charged each year until such maximum is reached. Theoretically, on this basis, the maximum reserve would be established over a period of five years. However, because of the arbitrary method employed by the State Housing Board, in its disposition of the surpluses, and the unit charges as stated above, the maximum reserves were reached earlier and in several instances were reached after only two to three years. In one instance it was noted that the reserve was in excess of the \$300.00 limit but had not been adjusted because "Special Work" was necessary and the cost to be charged to the reserve would bring it below the maximum.

There would appear to be no valid reason for this policy of using surpluses of the projects for the unnecessary acceleration of this accumulation of these reserves. It would have been more logical economically to have used the surpluses for the purpose of effecting a reduction in either the Commonwealth's subsidy and/or the project rents.

The matter should be seriously considered before those projects now in temporary financing change their status.

**Rent Delinquencies - Chapter 200 Projects:** Attention is directed to the fact that rent delinquencies continue to increase. The State Housing Board should take necessary steps to curb them. Such delinquencies for all the Chapter 200 Projects totaled \$93,296.22 as of June 30, 1953 as compared with \$69,776.00 in this category at the end of the previous fiscal year.

**Pay Roll:** The pay roll and time records were reviewed for two months within the audit period. In this connection it was noted that the time reports for five months from July 1, 1952 to November 30, 1952, could not be located and were not available for use in connection with this audit.

**Insurance Coverage:** All insurance required by local housing authorities is provided by so-called "Blanket" policies, which are arranged through the State Housing Board.

Each project is protected by five different "Blanket" policies. These include fire and rent coverage, property damage, public liability, monies and securities, and a position bond. The face values and maturities of these policies follow:

<u>Kind of Insurance</u>	<u>Face Value</u>	<u>Maturity Date</u>
Fire and Rents Insurance	90% of Value	March 1, 1955
Property Damage	\$25,000 00	3 years from date of issue to each project.
Comprehensive Public Liability	\$100,000 00/\$300,000 00	3 years from date of issue to each project.
Monies and Securities	\$25,000 00	December 1, 1955
Position Bond	\$10,000 00	Continuous

All the projects are covered for fire from the date the project is accepted for occupancy regardless of the date of issuance of the insurance certificate. When the local



authority accepts a project in part, this part is covered by the policy, and the premium is held back until the project is completed. A valuation is then made by the State Housing Board and premiums are paid on this valuation.

Prior to acceptance by the local authorities the contractors assume all liability.

**Lowell Homesteads:** Chapter 143 of the Acts of 1909 established the first law dealing with public housing in Massachusetts and authorized a special commission known as the Homestead Commission to investigate the expediency of the Commonwealth acquiring or opening for settlement land in country districts in order to relieve congested tenement districts. Chapter 607 of the Acts of 1911 made this Commission a permanent State Agency. As a result of its continued investigations the Legislature appropriated \$50,000.00 in 1917 for an experimental project in the City of Lowell which was called the Lowell Homesteads. The cost of that project was as follows:

Cost of Project:	
7 Acres of Land Including a House	\$12,500 00
Cost of Erecting 12 Houses	28,128 77
Improvements	2,626 77
	<u>\$43,255 54</u>
Unexpended Balance Returned to State Treasury	6,744 46
	<u>\$50,000 00</u>

To June 30, 1953 the results of this project's operations were as follows:

Income from Sale of Houses and Lots	\$53,237 92
Total Project Cost	43,255 54
Net Income	<u>\$9,982 38</u>

The total net earnings of \$9,982.38 represented the utilization of approximately 2.2 acres of land. At the present time approximately 4.8 acres of the original land purchased, with an assessed value of \$8,363.52 remains in the possession of the Commonwealth.

It was noted that no other project was undertaken during the existence of the Homestead Commission which was abolished in 1919.

**Temporary Financing:** As previously noted in this report, this Department recommended the utilization of temporary borrowings rather than permanent financing because of the lower interest rates which could be obtained.

Just prior to the issue of this report, it was noted that notes were issued at net interest rates of .8479%; .7442%; 1.839% and 1.879% for the financing of certain projects on which there had been no bidders on bonds previously offered because of the limitation of the interest rate to 2 1/2%. The saving thus effected will amount to approximately \$210,000.00 in the first year's financing alone.

It is again recommended that all such future borrowings be made on a temporary basis.

#### SALEM HOUSING AUTHORITY

REPORT NO. 54-H-2

**Tenants' Accounts Receivable - General:** It was noted that delinquent Tenants' Accounts Receivable totaled \$3,800.88 on the audit date, analyzed as follows by project:

Chapter 372	-	\$1,707 13
Project 200-1	-	1,389 00
Project 200-2	-	704 75
		<u>\$3,800 88</u>

On the foregoing, accounts totaling \$1,975.13 are more than one year old. The Authority had turned over to its attorneys several of these accounts for collection, etc. It was noted that a credit report on prospective tenants is now obtained before admission to any project.

It is further understood that request for authorization to write off the supposedly worthless accounts is being prepared.

**Tenants' Security Deposits - General:** This Authority requires that each tenant post a Security Deposit which is returned upon the termination of the lease provided that the

rent has been paid in full and no damage has been caused to the unit vacated. These deposits totaled \$5,225.00 and it is recommended that the possibility of investing these funds in savings accounts be examined.

Distribution of Expenses - Chapter 372: It was noted that the following errors in distribution of expenses had been made:

1. An amount of \$42.33 that should have been charged to the Insurance Account was charged to the Repairs, Maintenance and Replacements Account.
2. The expenditure of \$375.00 for painting that should have been charged to the Remodeled Units was charged to the Permanent Construction Units.

It is recommended that the necessary adjustments be made forthwith.

Provision for Reserves - Chapter 372: It was noted that the approval of the State Housing Board had been granted to use the balance in the Reserve for Repairs, Maintenance and Replacements to pay for a portion of the cost of painting the exterior of the buildings. In this connection however it was further noted that at the close of the fiscal year this account was compensated by making a charge to the expense account for the Repairs, Maintenance and Replacements. This arrangement, of course, was in effect contrary to that approved by the State Housing Board. The proper adjustments should be arranged.

Preparation for Sale of Units - Chapter 372: It is understood that this Authority is in the process of establishing selling prices for the Permanent Construction Units and will in the near future attempt to effect such sales.

Journal Entries - Project 200-2: It was noted that several journal entries have been made transferring expenditures from one expense classification to another without making adequate or detailed explanations. It is suggested that all such entries should be completely explained.

Accounts Payable - Project 200-2: Prior to going into Permanent Financing an account payable for compensation to Board members was established. Subsequently however the payments made were charged entirely to management expense rather than to the accounts payable. It is recommended that the necessary adjusting entry be made.

#### CAMBRIDGE HOUSING AUTHORITY

REPORT NO. 54-H-3

Temporary Construction Projects - Tenants' Accounts Receivable: As noted in the prior audit report, these temporary units have been demolished. However, the books of account have not yet been closed because the Authority is attempting to effect collections on \$4,825.71 which was still due from former tenants. This amount was not verified because the addresses of the individuals concerned were not available.

It appears doubtful that these balances will ever be collected. In this connection it was noted that no remittances on them have been received through the Attorneys to whom they have been given for collection during the past year. It is therefore suggested that they be charged off so that the books may be closed.

Temporary Construction Projects - Outstanding Check: It was noted that a check for \$5.00, which was drawn to refund a security deposit, has been outstanding since February 26, 1952. It is suggested that payment be stopped on all checks which have been outstanding for a period in excess of one year.

Chapter 372 - Permanent Construction - Sale of Homes: The Authority, after making two appraisals of these seven units, met with the respective tenants of the project to discuss the feasibility of selling to them these homes under the provisions of the options included in their leases. Inasmuch as the tenants interviewed indicated a desire to wait until the expiration of the five-year period during which the Authority is required to sell these dwellings, it was decided not to offer them for sale at this time.

Chapter 372 - Permanent Construction - Accounts Receivable: The Accounts Receivable - Sundry account balance of \$700.00 includes an item of \$600.00 which has been



due from the City of Cambridge for the sale of canvas since June 30, 1951. There was nothing in the records, however to indicate that the City had ever been billed for this item. It is suggested that the Authority send the City a bill for this sale.

Project 200-1 - Accounts Payable - Development: The Accounts Payable - Development in the amount of \$476.47 as appearing on the balance sheet of this project represents a liability for the unpaid balance of an architect's fee. In this connection, it was noted that the final bill submitted by this individual represented a balance due of \$1,051.00 because he used a higher construction contract amount upon which his fee percentage was applied.

A letter from the State Housing Board dated July 29, 1952 indicated that the amount requested was denied. Since that time there has been no action relative to this matter. It is suggested that steps be taken to clear this liability from the records.

Project 200-2 - Central Office Supplies: The following journal entry was made to bring on the books the inventory of Central Office supplies as reflected on the balance sheet of this project:

Dr. Central Office Supplies	\$425.50
Cr. Central Office Expense	\$425.50

To record the amount of central office supplies on hand September 30, 1952.

In this connection there appears to be no basis for charging Project 200-2 with a share of the central office supplies inventory, because there was no record in the accounting section to indicate that these supplies had been actually inventoried on that date. It would therefore appear that this inventory had been established to reduce the total Central Office expenses and consequently mitigate the possibility of a budget overrun in this account for the fiscal year ending March 31, 1953.

In further connection with this matter, it was also noted that an inventory of a like amount had been set up on March 31, 1952. The budget overrun in the Central Office Expense account for the fiscal year ending on that date totaled \$279.83 after the application of the credit setting up the inventory. This inventory was subsequently charged off on June 30, 1952.

It is suggested that the inventory currently reflected on the books be charged off and that the Authority discontinue its present practice of setting up inventories simply to take care of budget overruns.

Project 200-2 - Final Payment: Attention is called to the fact that the final payment to the general contractor has not been made because of certain exceptions taken by the Authority to the construction of the project.

Project 200-2 - Vacancy Loss: The records reflected a vacancy loss of \$591.14 for the period from July 1, 1952 to June 30, 1953. An analysis of this amount indicated that the major portion of it was due to the fact that the basement apartment of a former custodian had been unoccupied from October 15, 1952 to the date of audit.

This matter was discussed with the Business Manager for the Authority who stated that the apartment had not been rented because of the possibility that it might be needed for a subsequent custodian. It was noted, however, that this apartment was rented while this audit was in progress.

Project 200-3 - Final Payment: It was noted in connection with this project that the final payment to the general contractor has been withheld because of certain exceptions which were taken by the Authority to the construction of the project, and also because of a controversy regarding the credit to be applied to the construction contract amount because of the elimination of eight units from the number originally planned. In this latter connection it was further noted that the State Housing Board recently approved a contract credit of \$40,960.28.

Project 200-4 - Budget Overrun: It was noted that the actual utilities expense for the first quarter of the fiscal year ending March 31, 1954 was \$4,443.95 in excess of the amount originally budgeted. This overrun resulted from the failure of the Authority to include with its costs for the previous fiscal year expenses incurred in March but not paid for until April. It is therefore recommended that a revised budget be submitted to the State Housing Board.

**Project 200-4 - Accounts Payable - Development:** The Accounts Payable - Development in the amount of \$7,360.09 as reflected on the books of this project represents the balances of the estimated liabilities of the Development Fund at the time Permanent Financing became effective on April 1, 1952. At the present time it appears that all liabilities have been liquidated and it is suggested that the necessary adjustments be made to close out the accounts involved.

**Project 200-4 - Tenants' Accounts Receivable:** In verifying the accuracy of the tenants' accounts balances it was noted that an item of \$6.51 which was allegedly due from a former tenant had been paid to an Attorney. However, a tenant with a similar name, who had formerly resided in a Federal Project, was credited in error with the amount. This matter was brought to the attention of the proper personnel and the necessary adjustment was made.

**Project 200-6 - Development - Pay Roll - Executive:** An analysis of the development costs indicated that the actual charges to the Pay Roll - Executive account totaled \$16,884.43 as compared with an amount of \$8,000.00 appearing in the budget. In this connection, it was noted that approximately 30% of the salaries of the Executive Director and Administrative Assistant had been charged to this development account to June 30, 1953.

Since the State Housing Board had approved a preliminary operating budget for this project for the calendar year, it would appear that any pay roll charges to the development cost accounts subsequent to January 1, 1953 are improper and it is therefore recommended that the accounts be accordingly adjusted.

**Project 200-6 - Development - Inspection Expenses:** It was noted that the inspection expenses incurred by the Authority for the construction of this project totaled \$30,565.14 compared with \$8,000.00 budgeted therefore. In addition, the Authority was also charged \$7,340.80 by the State Housing Board for the services of Construction Advisors. On the basis of the 200 units constructed, the total inspection expenses of \$37,905.94 for the supervision of the construction of the project would appear to be excessive.

**Project 200-6 - Development - Tenant Selection Costs:** As of the date of audit, the charges to the Tenant Selection Costs account totaled \$14,195.89, or \$11,195.89 in excess of the amount budgeted. An analysis of the pay rolls of this section indicated that 94% of it had been borne by this project for the period from September 1951 to April 1953.

It is apparent that the development costs of this project has been increased by the burden of carrying practically all of the costs of this one section for this twenty-month period. It is suggested that this project be charged only with the tenant selection costs budgeted, and that the balance be charged to the Central Office expenses and prorated among the several projects.

**Project 200-6 - Administration - Vacancy Loss:** The records of this project reflected a vacancy loss of \$3,571.20 for the period January 1, 1953 to June 30, 1953. In this connection it was noted that three apartments which were still vacant as of the latter date had been available for rental since August 1, 1952, September 8, 1952 and October 27, 1952 respectively. It was further noted that several other apartments had been unoccupied for one or more months after having been accepted for occupancy.

It was learned that this delay in rental was due to the fact that the Authority could only accept as tenants those whose income was sufficiently large to warrant payment of the \$55.00 average rental maintained for this project.

**Project 200-6 - Administration - Budget Overrun:** A comparison of the budgeted and actual expenses for the period from January 1, 1953 to June 30, 1953 showed that the actual expenses charged to the Repairs, Maintenance and Replacements account totaled \$8,967.05 as compared with \$7,200.00 budgeted. The operating budget for this project includes the period from January 1, 1953 to December 31, 1953.

It is suggested that the Authority either reduce its expenses chargeable to this account classification for the balance of the period covered by the budget or submit an amended budget to the State Housing Board for approval.

**Projects 200-2 and 200-6 - Inventory:** It was noted that the Authority had no card records to control the inventory of materials and supplies purchased from the funds of these two adjacent projects which are jointly managed. It was further noted that



materials issued from this inventory to other projects had not been charged to the receiving projects.

It is suggested that a card record of inventory items be maintained, and that a notice of the issues to other projects be transmitted to the accounting section so that they may be properly controlled.

**Projects 200-2 and 200-6 - Project Visit:** When these projects were visited in connection with this examination, it was noted that the grounds presented an untidy appearance with papers, cans and other debris littering the area. It was also noted that the grass in one enclosed area had grown quite high, and that the shrubs and trees appeared to be in a poor condition.

After a discussion of the appearance of this area with the Business Manager for the Authority, the necessary improvements were made.

**Chapter 200 Projects - Operations under Permanent Financing:** The following schedule shows the results of operations for the fiscal years ending during this audit period for the five State-aided projects which have already entered into Permanent Financing:

Project	Fiscal Year Ending	Deficit before Commonwealth Contribution	Commonwealth Contribution	Surplus after Commonwealth Contribution
200-1	June 30, 1953	\$20,660 98	\$22,775 00	\$ 2,114 02
200-2	March 31, 1953	22,108 50	32,300 00*	10,191 50
200-3	June 30, 1953	18,035 08	21,400 00	3,364 92
200-4	March 31, 1953	64,387 28	73,625 00	9,237 72
200-5	June 30, 1953	16,523 06	17,800 00	1,276 94

\* Includes \$3,946.00 which was reserved from the surplus of the first fiscal year under Permanent Financing for the purpose of reducing the Commonwealth Contribution of the second fiscal year.

**Revolving Funds - Project Advances:** A comparison of the advances from the Chapter 200 projects and the monthly expenditures made for these projects indicated that the advances should be adjusted on the basis of the actual expenditures made and it is recommended that these revisions be made forthwith.

It was further noted that the Project 200-6 - Development advances are still reflected on the records of the Revolving Funds. Since there should be no further expenditures made for this account, it is suggested that these advances be returned.

**General - Salary Distribution:** It was noted that a portion of the salary of the General Construction Superintendent had been charged to Supervision and Overhead in the Repairs, Maintenance and Replacements accounts of Projects 200-1, 200-3, 200-4, 200-5 and 200-6. Since there was no provision made in the operating budgets of these projects for this charge, it appears that budget overruns will develop in the Supervision and Overhead classifications of the Repairs, Maintenance and Replacements accounts.

It was not readily apparent why projects which have been occupied for a substantial period of time should continue to bear any of the costs of the Construction section. It is therefore recommended that the Authority discontinue this practice, and that the necessary adjustments be made.

**General - Annual Report:** Section 26U of Chapter 121 requires each local housing authority to make an annual report in January to certain State and municipal officials. In this connection it was noted that the required report for the 1952 calendar year had not been submitted as of the date of audit.

**General - Journal Entries:** The examination of journal entries indicated that several were lacking in detail while others did not agree with supporting records. It is suggested that the personnel be instructed to exercise more care in their preparation.

**General - Service Charges:** It was noted that there has been an inconsistency in the accounting for the service charges made to tenants. In certain instances expense accounts had been credited and in others credits had been passed to miscellaneous income. It is recommended that all charges of this nature be handled on a like basis.

**General - Budgets:** An examination of the budgets submitted to the State Housing Board for the fiscal years ending in 1954 for Projects 200-1, 200-2 and 200-4 indicated that the Authority had not included interest on investments with its estimates of income. This omission may be attributed to the fact that the accrued interest on investments had not been reflected on the books of the projects. It is recommended that accruals be made on a regular basis on all subsequent purchases of investments.

**General - Insurance:** It was noted that the portion of the 1953 deposit premium for Workmen's Compensation insurance which applied to the Chapter 200 projects had been charged to expense, whereas the 1952 deposit premium had been charged to the Prepaid Insurance accounts. This matter was brought to the attention of the Authority's Comptroller and the necessary adjustments were made during the course of the audit.

It was further noted that the 1952 deposit premium had not been charged off over the period of the policy. It is suggested that all such premiums be amortized. It is further suggested that accruals for this liability be limited to the difference between the deposit premium and the estimated total cost.

**General - Cash Receipts:** At present there appears to be no receipts vouchers within the accounting section showing the detail of the miscellaneous project receipts remitted directly to the central office. It is recommended that such records be established.

**General - Fuel Oil:** The examination of the fuel oil bids indicated that the contract for #5 fuel oil had been awarded to the second lowest bidder of record whose quoted price had been \$.11 per barrel higher than that of the lowest bidder. In this connection it was noted that the purchasing agent had recommended that this contract be awarded to the second lowest bidder who is the present supplier to the Authority, inasmuch as the lowest bidder intended to furnish reclaimed oil which is apparently not as good as regular oil. The State Housing Board subsequently approved this award to the second lowest bidder.

**General - Members' Compensation:** It was learned that the members' compensation was supposedly based on the amounts established in the Chapter 200 budgets. However, a comparison of the amounts budgeted and the actual payments made indicated that the actual payments were in excess of the amounts budgeted.

It is therefore recommended that the members' compensation be computed in the manner prescribed by the State Housing Board. Adjustment for past payments should also be effected.

## WEST SPRINGFIELD HOUSING AUTHORITY

REPORT NO. 54-H-4

### Chapter 372

**Subsidy:** Under the provisions of Chapter 372 of the Acts of 1946, as amended, the Town of West Springfield could receive a total of 10% of the certified development cost of the local project, payable at the rate of 2% per annum for a period of five years. The development cost approved by the State Housing Board amounted to \$350,190.77. To the date of audit, this Town has received from the Commonwealth a total of \$35,019.10 or the maximum subsidy payable.

### Project 200-1

**Debt Service Payments:** This Authority pays into its Debt Service Fund each fiscal year from rental income, an amount which together with amounts received from other sources, will equal that fiscal year's total debt requirements. For the first fiscal year this amount was paid in ten monthly payments, one twelfth of the total being paid on or before the fifteenth day of the month in each of the first nine months, and the balance being paid on or before the fifteenth day of the tenth month of the fiscal year. However, starting with January 1, 1953, the beginning of the second fiscal year under Permanent Financing, this amount will be paid at one time and will be forwarded to the fiscal agent on the first day of the eleventh month of the fiscal year.

**Commonwealth Contribution - Second Fiscal Year:** This Authority has received \$20,070.33 as its second annual Commonwealth Contribution. This amount was \$254.67 less than the maximum possible subsidy of 2 1/2% of the development costs which had been received for the first fiscal year under Permanent Financing. This decrease was effected by applying a portion of the first fiscal year's operating surplus toward the reduction of the maximum subsidy.



The operating surplus for the first fiscal year under Permanent Financing amounted to \$6,904.67 and was distributed on advice of the Chairman of the State Housing Board, as follows:

Transfer to Operating Reserve	\$6,650 00
Transfer to Commonwealth Contribution	
Reduction Reserve	254 67
	<u>\$6,904 67</u>

Surplus Cash: It was noted that the cash balance in the Administration Fund has been steadily increasing since Permanent Financing became effective, because of provisions made for the operating and debt service reserves. Although a portion of the cash surplus has been invested, it is recommended that additional investments be made so that the total investments will approximate the total of the reserves as they were originally established to care for contingencies and should not be used in the normal course of operations. The cost of operations will accordingly be reduced by the income received.

#### ATTLEBORO HOUSING AUTHORITY

REPORT NO. 54-H-5

Chapter 372 - Profits: The profit of \$7,491.23 for this project for the 1952 calendar year has been turned over to the City of Attleboro. The result of operations for the first six months of the 1953 calendar year reflected a profit of \$5,024.62. It is understood that the entire profit for the year will be turned over to the City of Attleboro in 1954.

Chapter 372 - Subsidy: A total subsidy of \$30,399.37, representing 10% of the total development costs of \$303,993.68 will be ultimately paid to the City of Attleboro by the Commonwealth.

To date payments to the City of Attleboro by the Commonwealth as shown by the records in the office of the City Treasurer, were as follows:

June 1951	\$ 6,079 87
June 1951	6,079 87
August 1951	6,079 86
September 1952	6,079 86
	<u>\$24,319 46</u>

Project 200-1 - Refund of Tenants' Accounts Receivable: An examination of the tenants' records indicated that refunds of rents made during the period under audit were not reflected in the respective tenants' records.

It is therefore suggested that the Authority maintain complete tenants' records in the manner prescribed by the State Housing Board.

Project 200-1 - Change Orders: It was noted that Change Orders No. 34, 36, 37, 39, 40 and 41 totaling \$18,160.35 were not reflected in the contract award account as of the date of audit.

It was noted, however, that during the course of the audit this situation was adjusted on the records.

Project 200-1 - Acceptance of the Project: As of the date of audit, Part II of the Certificate of Completion had not yet been processed nor had final payment to the contractor been made.

Attention is directed to the fact that it was noted that there had been several meetings of the local Authority, representatives of the State Housing Board, and the general contractor concerning the final acceptance of the project and it is understood this delay in acceptance is due to the fact that the Authority and the general contractor have not reached agreement as to the amounts owed.

#### FITCHBURG HOUSING AUTHORITY

REPORT NO. 54-H-6

Annual Subsidy: The Commonwealth provides an annual subsidy which is not to exceed 2 1/2% of the development costs of the project.

A subsidy payment of \$32,568.23 for the third year under Permanent Financing was received on February 20, 1953, computed as follows:

2 1/2% of Development Cost	\$40,375 00
Less:	
Transfer of Prior Year's Surplus to Reduction Reserve	<u>7,806 77</u>
Third Year's Subsidy	<u>\$32,568 23</u>

Pay Rolls: It was noted that time records are kept for maintenance employees by the bookkeeper. The Executive Director substantiates the time worked by these employees, who are paid hourly wages. No such records are available for salaried employees. Records, however, are maintained for their sick leave and vacation time. It is suggested that steps be taken to include in the present system time records for all employees.

## CLINTON HOUSING AUTHORITY

REPORT NO. 54-H-8

Annual Contribution: Attention is directed to the fact that the Commonwealth makes an annual contribution of not more than 2 1/2% of the total cost of the project. The contribution for the third year under Permanent Financing was \$7,147.73 and was computed as follows:

2 1/2% of the Total Cost	\$7,975 00
Less:	
Prior Year Surplus	<u>827 27</u>
	<u>\$7,147 73</u>

The foregoing amount was received by the fiscal agent, The National Shawmut Bank of Boston, on June 9, 1953.

Cash Collections: It was necessary to examine all the rent receipts and all the deposits recorded on the bank statements in order to determine the correct bank balance so that the bank statements could be reconciled as of the date of audit.

During the course of this examination, the following errors were also noted:

1. Rent collections in the amount of \$291.50 were deposited in the bank but were never recorded in the cash book.
2. Insurance settlement of \$50.00 was deposited in the bank but not recorded in the cash book.
3. A rent collection of \$33.00 was erroneously entered in the cash book as \$53.00.

In addition to the foregoing, it was also noted that none of the bank statements had been reconciled for any month coming within the audit period. It is suggested that more careful attention be paid to the recording of the cash. It is also advised that the bank statements should be reconciled promptly each month.

Accounts Receivable - Tenants: The balance in the Tenants' Accounts Receivable control account was not in agreement with the balance of the individual accounts in the tenants' subsidiary ledger. This condition, which has existed for several months, has been brought to the attention of the Authority and the State Housing Board. It is suggested that immediate steps be taken by the proper personnel so that the accounts may be corrected forthwith.

Tenants' Security Deposits: The respective tenants' sheets were examined to establish the credits to tenants for security deposits. In this connection it was noted that the sheets indicated balances totaling \$745.00 while the control account in the general ledger showed a balance of \$841.75.

It is suggested that a survey be conducted to determine the proper credits to the tenants. Adjustments should subsequently be made in accordance therewith.

Pay Rolls: It was noted that there were no detailed pay rolls or time records available at this Authority - the only employee being the Executive Director. During his absence, his secretary, not an employee of the Authority, collects rents and the Acting Executive Director makes deposits in the bank. The bookkeeping is also performed by an individual employed by the Executive Director who is not an employee of the Authority.



It is suggested that possibly the Executive Director's bond be written to include coverage for all who handle funds belonging to the Authority.

**Personnel:** The employment of the wife of one of the Authority's members was terminated after she had performed services for approximately six months. This action was taken at the insistence of the State Housing Board who indicated that this employment was illegal. Nothing as yet has been resolved as to whether or not she is entitled to receive compensation for the services rendered.

#### AGAWAM HOUSING AUTHORITY

REPORT NO. 54-H-9

**Utility Charges - Project 200-1 and Project 200-2:** The two previous audit reports have stated that the utility rates being charged to the tenants appeared to be insufficient to cover their cost. In this connection the records of this Authority for the audit period indicated the following:

	<u>Project 200-1</u>	<u>Project 200-2</u>
Cost of Utilities	\$4,628 75	\$1,772 76
Charges to Tenants	2,762 40	979 20
Deficit	<u>\$1,866 35</u>	<u>\$793 56</u>
<u>Per Unit:</u>		
Monthly Cost per Unit	\$12 05	\$12 31
Monthly Charge per Unit	7 19	6 80
Monthly Deficit per Unit	4 86	5 51

It was further noted that the Authority voted an increase of \$2.00 in the monthly rates effective October 1, 1953, to \$8.80 for the 2 bedroom units and \$10.10 for the 3 bedroom units.

An analysis of the items charged to the utilities account further indicated that the charges included the salary of the custodian, water, oil, burner services, and electricity for Apartment 5D, boiler room, laundry room, street lights and pilot light on burner. In this connection the management resolution adopted by the Authority states:

"Establishment of Rents: Section 3d. Charges for any utilities other than water which the project supplies to tenants shall be made for such amount of consumption and at such rates as may from time to time be found necessary by this authority to reimburse the project for the cost of supplying such utilities."

It would, therefore, appear that the cost of water should not have been charged to the cost of utilities. The salary of the custodian and the electricity should have been prorated and only that portion of it which applies to supplying utilities should have been charged to it.

After taking into consideration the aforementioned possible adjustments to the cost of utilities, the new income will probably be sufficient to meet the total cost.

**Rent Receipts:** It was again noted that rent receipts were not prenumbered. It is, therefore, again recommended that all unused rent receipts be prenumbered.

**Vacancy Loss:** The previous audit report suggested that vacancy losses be computed and shown on the financial records. In this connection it was noted that these vacancy losses now appear as part of the financial records.

**Operating Reserve - Project 200-1:** The previous audit report stated:

"Operating Reserve: The management resolution adopted by the Authority provides that a maximum Operating Reserve of \$300.00 per unit, or a total of \$9,600.00, shall be established over a period of five years, with a reservation of one-fifth of the total (\$1,920.00) in each of the first five years under permanent financing. In this connection it was noted that a total of \$4,962.06 was transferred to this account during the first fiscal year. It was further noted that as of the date of audit the balance of this account amounted to \$10,122.56 or \$522.56 in excess of the maximum which was to have been set up.

"It is recommended that the charges to operations for the provision for this reserve be discontinued, and that the excess amount reserved be transferred to surplus."

In connection with the foregoing it was noted that the operating reserve for Project 200-1 was reduced to the maximum of \$9,600.00 by the transfer of \$522.56 to surplus on July 1, 1952.

**Project Rents:** Rental charges for both projects appeared to be adequate to defray their operating costs after into consideration the 2 1/2% subsidy received from the Commonwealth. In this connection Project 200-1 showed a profit of \$5,316.34 after the subsidy receipt of \$8,275.00, while Project 200-2 indicated a profit of \$1,363.14 after its subsidy of \$3,500.00. It is understood that these surpluses will be applied to reduce subsequent subsidy payments by the Commonwealth.

**Budget - Project 200-2:** It was noted that this Authority did not have an operating budget for the first fiscal year on Project 200-2 as is required by the State Housing Board. Such a budget should be prepared and submitted.

**Permanent Financing - Project 200-2:** On July 1, 1952, Project 200-2 was changed from Temporary Financing to Permanent Financing with the issuance of bonds in the amount of \$140,000.00. These bonds bear interest at the rate of 2 1/4%. A premium of \$2,701.86 was received in connection with this issue.

The final cost of development of the project was \$140,665.50 which was reduced to the bond figure by applying a part of the initial operating period surplus of \$665.50. Accounts Payable in the amount of \$12,995.38 were included in the final development cost and as of the date of this audit only \$9,894.01 had been paid on them, leaving a balance of \$3,101.37. This balance should be adjusted as it now appears that it will not be necessary for the purpose originally intended.

#### QUINCY HOUSING AUTHORITY

REPORT NO. 54-H-10

**Demolition of Temporary Construction Projects:** These buildings were originally erected by the Federal Government in 1946 for the benefit of veterans, and were turned over to the City of Quincy on January 1, 1950.

It was learned that after an examination of these buildings by the Building Inspector of the City of Quincy and the Superintendent of Maintenance of the Authority that it was recommended that they be demolished as they apparently were unfit for occupancy. Consequently, demolition contracts were awarded on December 1, 1952 and February 24, 1953, and on July 31, 1953 all of the units had been demolished. The Quincy Housing Authority received \$4,136.31 from the demolition of 108 units and \$750.00 from the demolition of 36 units.

The surplus from the operations of this project for the year ending December 31, 1952 totaling \$12,913.62 was remitted to the City of Quincy in January 1953.

**Chapter 372 - Subsidy:** The annual subsidy from the Commonwealth is paid on the basis of 10% of the total development cost of \$406,777.60. This subsidy is paid for a period of 5 years. To date of audit the maximum possible subsidy of 10% of the total costs was paid in five annual 2% payments in the aggregate amount of \$40,677.76, to the City of Quincy.

**Chapter 372 - Surplus from Operations:** The surplus from operations of this project for the fiscal year ending December 31, 1952 totaling \$13,741.04 was remitted to the City of Quincy in January 1953.

**Chapter 200-1 - Suits Pending:** Attention is directed to the fact that there were three law suits pending which involve this Authority, as follows:

1. A dispute over amount of fill brought to project.
2. A dispute as to who is to receive payment.
3. A public liability claim.

**Chapter 200-1 - Permanent Financing:** The books of the Authority, after taking into consideration the Commonwealth contribution of \$106,250.00, reflected a surplus of \$55,500.31 for the first fiscal year under permanent financing. This surplus was distributed as follows:



Transfer to Reduction of Annual  
Contribution Reserve

\$55,500.31

This Authority received a subsidy of \$50,749.69 for the second fiscal year under permanent financing, which represented the maximum subsidy of 2 1/2% of the certified development costs less an amount reserved for subsidy reduction from the surplus of the prior year.

It was understood that the surplus after the second fiscal year's operations, taking into consideration the Commonwealth's annual contribution, would be \$36,533.93.

Chapter 200-1 - Depreciation Reserve: It was noted that this Authority still maintains a Depreciation Reserve even though the Accounting Manual issued by the State Housing Board does not suggest that such an account be carried.

Chapter 200-1 - Comprehensive Public Liability: It was noted that prior to July 27, 1953, the cost of this insurance was \$.76 per unit, and since that date the cost has been \$2.81. This increase in cost was a direct result of an action by the State Housing Board.

CHELSEA HOUSING AUTHORITY

REPORT NO. 54-H-11

Revolving Fund

Advances from Projects: The Revolving Fund which totaled \$4,000.00 was maintained by advances from the three State and the two Federal projects. The balances were all verified.

In checking the expenditures it was noted that a great deal of additional work was done because the fund was not of sufficient size. In this connection it was noted that the average monthly expenditures were in excess of the advances which necessitated reimbursements. This involved analysis, to the point of reimbursement, of all entries to the various accounts, etc. In addition, because of the method used, the distributions were seldom made at the close of a month with the result that the monthly expenditures had no relation to the reimbursements.

It is, therefore, suggested that the advance be increased and that reimbursements be made at the end of each month.

Temporary Construction Projects

Unoccupied Units: It was noted that there were 30 unoccupied units as of the date of audit which, it is understood, will be demolished. These unoccupied units have created somewhat of a hazard because of the number of children living in the project. It was learned that the City of Chelsea has been requested to proceed with demolition, but to date no action had been taken. As a matter of information, it is noted that the units have been awaiting demolition for the past several months.

Potential Income: It was noted that an incorrect basis for the computation of potential income was being used. When units are finally vacated, the potential income is not reduced but the reduction is reflected through the Vacancy Loss account. While the net result is the same, distorted amounts are shown. In this connection it was noted that the Dwelling Income was reflected as being \$2,632.00 for each of the eight months prior to the audit date, although the actual amount averaged approximately \$2,200.00. The vacancy loss averaged approximately \$432.00 each month although it actually should be substantially less to include only items where tenants had vacated before the end of the month after the figures had been computed.

Accounts Payable: It was noted that the Balance Sheet - Temporary Projects includes an account payable to the Revolving Fund in the amount of \$99.87, yet the amount appearing as an Account Receivable on the Revolving Fund Balance Sheet was \$93.87. In this connection it was noted that an insurance refund in the amount of \$6.00 had been incorrectly handled. This amount should be adjusted as soon as possible.

Temporary Construction Projects - Appropriated Fund: As noted in previous audit reports this fund represents the balance of money originally given by the City of Chelsea for preliminary expenses. The balance of this account at the date of this audit was \$5,480.67. This amount represented an increase of the amount reported in the prior audit report of \$1,350.00, and was the result of canceling a check which had been issued on September 14, 1951, but which was not released due to the question of legality. This item was finally paid through funds provided by Federal projects.

Projects 200-1 and 200-2 - Permanent Financing: As of October 1, 1952, Projects 200-1 and 200-2, which previously had been set up as separate projects, were consolidated for purposes of financing. Bonds were issued on the basis of their combined development costs after adjustments of credits from the Initial Operating Period. The purpose of this consolidation was to reduce the average unit cost inasmuch as the costs of Project 200-1 were excessively high and it was anticipated the maintenance costs would also be high because of poor construction, etc. Through this consolidation the rent charges will be accordingly averaged to the advantage of the tenants of Project 200-1.

Development Costs - Projects 200-1 and 200-2: Separate ledger accounts had been maintained for each of these projects for development costs. However, the subaccounts had not been posted to the corresponding control accounts since December 1950. This matter was discussed with the accountant who handles the records of the Authority and he stated the postings in the records would be entered to include all development costs.

Annual Verification of Tenants' Income - Projects 200-1 and 200-2: It was noted that the prescribed annual verification of tenants' incomes had been made in December 1952 and that rents were changed to the adjusted income amounts. In June 1953, although a thorough verification was not made, several income increases were noted and the rents were again adjusted. The latter adjustments included a retroactive feature whereby charges were made for increases in rent to the established date of the income increase, which in some instances was three and four months. These charges created a great deal of controversy and it was decided to obtain authority from the State Housing Board to eliminate subsequent retroactive charges and change the rents only as of the dates of the prescribed annual income determinations.

Collection Losses: It was noted that accounts receivable due from vacated tenants totaling \$538.40 had been charged-off during the audit period and was charged to Account 4730 - Collection Losses which is an expense account. This charge should have been made to the Operating Reserve which is established for such purposes. It is suggested that the necessary adjustment be made.

Insurance: The usual verification of insurance coverage was made and found to be in order for the period of the audit. However, during the course of the audit a directive from the State Housing Board was received covering the Comprehensive Public Liability insurance; the directive stated that effective July 27, 1953 a new policy would be in effect and the policies previously covering this insurance would be canceled. The analysis of the charges for the new insurance, which included the same coverage as the original policy, indicated the following:

<u>Project 200-1</u>	<u>Insurance in Effect July 27,</u>	<u>Rate Per Year Per Unit</u>	<u>New Policy</u>	<u>Rate Per Year Per Unit</u>
<u>70 Units*</u>	To Mature April 1953	\$ .757	July 27, 1954	\$11.59
<u>Project 200-2</u>				
<u>128 Units</u>				
32 Units	To Mature April 1954			
48 Units	To Mature June 1954			
48 Units	To Mature July 1954	.757	July 27, 1954	5.98

\* While this policy had actually matured, the insurance was covered on a "Blanket Policy" plan.

It will be noted that although the insurance for Project 200-2 had practically a complete year to run, for the majority of the units, it was canceled and replaced with a policy at a cost greater by 8 times.

It will also be noted that the new policy covering Project 200-1 was 15 times the cost of the previous policy.

A protest was registered by this Authority in this respect. The following is a copy of the directive from the State Housing Board together with the copy of the letter from this Authority questioning the referred to action:



COPY

## THE COMMONWEALTH OF MASSACHUSETTS

## STATE HOUSING BOARD

90 TREMONT STREET, BOSTON 8

September 1, 1953

TO: All Housing Authorities

FROM: Daniel Tyler, Jr., Chairman

SUBJECT: Insurance - Blanket Comprehensive Public Liability

Effective July 27, 1953 the Aetna Casualty and Surety Company is the Underwriter for the above-captioned coverage replacing a similar policy which terminated on that date.

The present policy in the interest of economy is written on a Retrospective Rating Plan. This plan operates in such a manner that rates are determined on the actual loss experience based on a one year period of coverage. In other words, during a year in which claim loss is high, premium costs will be commensurately high. In a year during which loss experience is good, such experience will be reflected in a lower premium cost.

Within the coming month each Authority will receive Certificates issued by the Underwriter evidencing coverage for all units. At the same time the General Agent for this business, Boit, Dalton and Church, 89 Broad Street, Boston, will bill each Authority for coverage for a one year period commencing July 27, 1953. During the same period this office will issue Standard Approval Forms (#93) authorizing payment of the premium cost. Charges as billed will be subject to adjustment at the close of the insurable year. Adjustment will be in the form of an additional premium charge or credit depending upon the loss experience during the current insurable year as set forth above.

In view of the foregoing and with the purpose of keeping premium cost down to the absolute minimum, all Housing Authority Personnel are earnestly requested to do all possible at all times to eliminate at once any and all conditions throughout Authority Properties which could result in injury with resulting claims.

Insurance costs for all phases of coverage have been on the upward trend for some time and the current indication is that they will so continue. As is the case in any Authority expense, rising costs of various services are of necessity reflected in tenants' rents and in view of this, it becomes the duty of all interested parties to do everything possible to eliminate any existing hazard observed anywhere on Authority Premises.

In the event you would like to discuss any phase of the foregoing, kindly contact Mr. O'Rourke of this office.

COPY

## CHELSEA HOUSING AUTHORITY

54 LOCKE STREET, CHELSEA 50, MASS.

September 16, 1953

Mr. Daniel Tyler, Jr., Chairman  
State Housing Board  
90 Tremont Street  
Boston 8, Massachusetts

Att: Mr. Joseph F. O'Rourke  
Insurance Section

Dear Sir:

Reference is made to your memorandum dated September 1, 1953 on the subject of "Insurance, Blanket Comprehensive Public Liability".

Please be advised that we have received a Certificate of Insurance from the Aetna

Casualty and Surety Company and an invoice from Boit, Dalton and Church covering the 70 units in our State Aided Project, Chelsea 200-1 for a period of one (1) year beginning July 27, 1953 with a premium due in the amount of \$811.64.

We have also received a Certificate of Insurance and an invoice from the same companies covering the 128 units in our State Aided Project, Chelsea 200-2 for the same period with a premium due in the amount of \$765.72.

That we fail to understand these billings is a mild understatement.

In the case of our Chelsea 200-1 project, for a three (3) year coverage with the same limits, our cost was \$158.90 or a yearly cost of slightly under \$53.00 and when this is compared with the premium due, it would appear that the cost is to be approximately 15 times the amount previously paid.

In the case of our Chelsea 200-2 project, for a three (3) year coverage with the same limits, our cost was \$290.56 or a yearly cost of slightly under \$97.00 and when this is compared with the premium due it would appear that the cost is to be approximately 8 times the amount previously paid.

We further noted that our Liability coverage at the rate of \$97.00 a year was due to expire in the following manner:

32 units in April 1954  
48 units in June 1954  
48 units in July 1954

Just how we can reconcile and/or justify the cancellation of this coverage at approximately \$97.00 a year and replace it with similar coverage at a cost of \$765.72, is beyond us.

While we can appreciate the fact that insurance costs have gone up, we can't believe that our costs should go up 8 and 15 times the previous costs.

Please be assured that we understand the Retrospective Rating Plan, but unless the adjustment is made on an individual Authority basis, rather than on a State wide basis, we feel that our Authority will be unjustly penalized in that it will be required to pay for those Authorities, whose claim losses will be high.

Therefore, please be advised that it is our intention to hold up payment of these premiums until such time as the above matters are satisfactorily clarified.

We shall sincerely appreciate it if you will give this matter your earliest possible attention.

Very truly yours,

Anthony F. Navoy  
Executive Director

AFN:mb

The aforementioned, of course, includes only Comprehensive Public Liability insurance. No billings had as yet been made for the Fire and Workingmen's Compensation Insurance.

It was further noted in this connection that the comparable insurance coverage for the Federal projects in this City averaged \$3.35 per unit, less than one half of the combined charges for Projects 200-1 and 200-2 which averaged \$7.97 per unit on the consolidated basis.

Tenants' Security Deposits: It was noted that this account reflected an excess credit of \$20.00. In this connection it was noted in two instances that refunds had not been given to tenants who had vacated in October 1952. These deposits should have been applied to the expense account Repairs, Maintenance and Replacements to cover repairs necessary which were chargeable to the particular tenants concerned. This matter was brought to the attention of the Authority's accountant and the necessary adjustments were effected while the current audit was in progress.

Commonwealth Subsidy: The final subsidy payment by the Commonwealth was received by the Fiscal Agent of this Authority on August 21, 1953 and accordingly did not appear on the records as of the date of audit. However, the full subsidy was distributed



on the accrual basis to reflect the true condition for the period of this audit.

**Architect's Fees:** The previous audit report indicated that amount of fees as submitted by the architect were \$6,541.21 in excess of the fees approved by the State Housing Board. In this connection it was noted that the architect had begun a legal action for \$3,660.53 in this matter. After a countersuit had been initiated by the Authority, an agreement was reached out-of-court and the matter was finally settled by payment to the architect of \$2,000.00.

**Accounts Payable:** It was noted that the Accounts Payable - Development indicated a balance of \$43,478.20. This amount would appear to be grossly in excess of the required amount as the outstanding obligations of record were indicated as \$12,789.00 for corrective work and a pending litigation of \$14,000.00, a total of less than \$27,000.00.

It is suggested that the excess be used as a reduction of the Commonwealth's Contribution by crediting it to the Surplus Account.

**Inspection of Project:** A visual inspection of the several projects and their respective areas indicated that many of the defects noted in the previous audit report have been considered by the Authority and certain steps have been taken to adjust the conditions noted at that time. It was noted in this connection that a contract has been awarded in the amount of \$12,789.00 to make the necessary repairs, etc. This contract includes exterior work only. The inside work, it is understood, will be handled by the maintenance men.

There are, however, still a few items requiring correction and attention which include the following:

1. Oil fuel pipes protrude 5 to 6 inches above the ground and are a considerable distance from the buildings. These pipes are in areas which get a great deal of foot traffic and as a safety measure, steps should be taken to relocate them.
2. The "blacktop" is cracked and slanted in several places. It is understood that this condition will be corrected in the spring of 1954.
3. While the condition of the storage rooms had been corrected by erecting stalls, they were still very poorly lighted. It was explained that the tenants always took light bulbs from the storage rooms.

**Contract Award - Project 200-3:** In checking the bids for construction contracts on this project it was noted that the award had not been made to the lowest bidder, but was given to the second lowest bidder in the amount of \$1,328,112.00 or \$29,290.00 more than the lowest bid. It was explained that the lowest bidder had been the contractor on Project 200-1 who had not completed his work to the satisfaction of the Authority and the members were reluctant to again award a contract to that firm. The State Housing Board approved the award to the second lowest bidder after the reasons therefor had been explained in detail by the local authority by correspondence.

**General:** It was noted that time records were not being maintained for the office personnel. For the maintenance men, however, a daily work sheet showing the distribution of time is maintained.

#### SOMERVILLE HOUSING AUTHORITY

REPORT NO. 54-H-12

**Discharge of Executive Director - General:** It is noted that the Executive Director of this Authority was discharged as of September 1, 1953. In this connection it was noted that a five year contract for his services was in effect which did not expire until April 1956. This contract, however, had been disapproved by the State Housing Board. It is understood that this former executive director has brought a lawsuit against the Authority on this contract.

**Robbery Loss - General:** It was noted that on February 2, 1953, the Authority's office at 30 Memorial Road, Somerville, was burglarized. At that time all the cash on hand was taken, but checks on hand were left. It is understood that the total loss suffered involved the following:

Project 200-1 - Rents	\$1,599 67
Project 200-2 - Rents	1,266 50
Key Fund	10 00
Petty Cash - Project 200-1	50 00
	<u>\$2,926 17</u>

This apparent loss was computed by listing all the rent receipts issued subsequent to the last prior deposit to the time of the robbery and reducing it by the amount of checks not taken. This loss was covered by insurance and reimbursement in the amount indicated was subsequently received.

It was noted that one of the robbers was apprehended and was found guilty of the crime.

**Tenants' Security Deposits - General:** On the date of audit the balances in Tenants' Security Deposit accounts totaled \$4,510.00. It was noted that these funds are deposited together with the regular Administration Fund checking accounts. Inasmuch as this fund is not very active, it is suggested that the possibility be explored of depositing these funds in a savings account in order to earn interest.

In further connection with these deposit accounts the following were noted:

1. Three tenants were transferred from Project 200-1 to Project 200-2, yet their Security Deposits in the amount of \$30.00 remain in Project 200-1.
2. Five Security Deposits totaling \$50.00, belonging to vacating tenants, have been held by the Authority because of the poor condition of their respective vacated apartments. These deposits, however, had not been transferred to the proper accounts.
3. Three Security Deposits totaling \$30.00 are being held against overdue rent totaling \$693.50, owed by vacating tenants. These deposits, however, are still held in the Deposit Account.

It is, therefore, recommended that the necessary transfer adjustments be made from the Deposit Account.

**Condition of Files - General:** It was noted that correspondence and documents for the period prior to the employment of the present office personnel could not be located because it had not been filed properly, or was in the hands of attorneys representing the Authority. Much of this correspondence was noted to have been piled in the office vault in no order.

It is recommended that the Authority review all its records, correspondence and documents and properly classify and file it. It is also suggested that any records of the Authority not in its offices be properly accounted for and it should be seen that they are returned promptly when no longer needed.

**Overtime Pay Roll - General:** During the current audit period a total of \$2,069.33 was expended for overtime salaries. The only authorization, however, for such expenditures evidenced by the minutes of the Board Meetings was for such services in connection with the moving of the central office for which the amount of overtime salaries was \$306.88.

It is suggested that steps be taken to control through the minutes overtime salaries and wages paid.

**Endorsements on Pay Roll Checks - General:** It was noted in several cases that pay roll checks had been endorsed by persons other than the payees. On checking, it was learned that occasionally employees of the Authority cashed checks for fellow employees. This practice is not proper inasmuch as the canceled check does not bear the payee's signature as evidence of payment. It is, therefore, suggested that all employees personally endorse their checks.

**Allocation of Cost of Administration Building - General:** It was noted that the following allocation of the cost of the Administration Building was made by the Authority:



Payments Made to Contractor

Project 200-1 - 216 Units	\$30,268 05
Project 200-2 - 240 Units	24,279 71
	<u>\$54,547 76</u>

It was understood that the basis for this distribution was supposed to have been made on the relative number of units in the two projects. This was obviously, however, not so computed. It is suggested that appropriate adjustments be made to correct this cost distribution.

It is further suggested that possibly the Federal project now under construction should be considered in the final establishment of this distribution.

**Hiring of City Employee - General:** It was noted that a full time employee of the City of Somerville was engaged as a tenant selector by the Authority without a waiver having been obtained. The Housing Authority law specifically states that a city employee may be employed by a Housing Authority only after such a waiver has been obtained from the State Housing Board. It was noted that a request for one was submitted to the State Housing Board for approval while the audit was in progress.

**Visit to Projects - General:** A visit was made to the project sites in connection with this audit for the purpose of inspection of the building exteriors and the projects areas. It was noted that the areas were extremely dirty and buildings were disfigured with chalk and crayon marks. It is recommended that steps be taken to correct the appearance of the buildings and grounds.

**Public Liability Insurance - General:** It was noted that public liability insurance policies were canceled as of July 27, 1953 by direction of the State Housing Board and new policies were subsequently issued. The comparison of rates is shown as follows:

	<u>Old Premium per Year</u>	<u>New Premium per Year</u>
Project 200-1	\$163 44	\$ 737 45
Project 200-2	181 60	1,086 08

**Accounts Payable, Development - Project 200-1:** Prior to going into Permanent Financing there was established estimated liabilities pertaining to the Development Costs totaling \$40,080.45. On the current audit date, which is more than one year since that time, there still remains an account payable balance on the records of \$23,490.63. An analysis of the original estimates together with current balances follow:

	<u>Balance July 1, 1952</u>	<u>Balance July 31, 1953</u>
Furniture	\$ 716 40	-
Bronze Plaques	450 00	\$ 177 75
Administration Building	17,414 05	7,036 30
Architect's Fees	1,300 00	464 35
Bond Costs	4,400 00	12 23
Hot Top	7,200 00	7,200 00
Shades	100 00	100 00
Paint	500 00	500 00
Fences	4,000 00	4,000 00
Light Bulbs	200 00	200 00
Asbestos Covers	1,600 00	1,600 00
Ranges	100 00	100 00
Loam	800 00	800 00
Seed	225 00	225 00
Glass	100 00	100 00
Hose	250 00	250 00
Play Pit	500 00	500 00
Sump Pump	50 00	50 00
Roto Rooter	175 00	175 00
Totals	<u>\$40,080 45</u>	<u>\$23,490 63</u>

In connection with the foregoing, it was noted that the following items apparently included in the foregoing were charged to current operating expenses:

Light Bulbs	\$201 25
Paint	472 50

It is difficult to understand why no action has yet been taken to purchase items which were estimated as necessary prior to July 1, 1952. It is suggested that steps be taken to adjust these accounts payable. Any amounts not now necessary should be adjusted so that any balance may be applied to reduce possible future Commonwealth subsidy contributions.

**Purchase of Land by Federal Project - Project 200-2:** It was noted that a certain parcel of land owned by Project 200-2 was acquired by purchase by the Federal Government as it was necessary in connection with the construction of a Federally controlled project. Title to this land was passed in January 1953. Necessary approvals were obtained and a selling price of \$26,000.00 was established. To date, however, this land has not been paid for to Project 200-2, although it is understood that the required funds are available for payment. It is recommended that steps be taken to collect this amount forthwith.

**Lock-Out Man - Project 200-2:** It was noted that a tenant living in Project 200-1 had been designated to serve as a so-called "door opener" for locked out tenants in Project 200-2 at a salary of \$50.00 per month. This position, which to state the least is a most unusual one, is not even provided on the project where the employee lives. It is suggested that the advice of the State Housing Board be requested in this matter.

**Fuel Oil Contract - Project 200-2:** It was noted that a fuel oil contract for Project 200-2 had been awarded to the second lowest bidder. In this connection the minutes of the Board meetings indicated that this award had been so made because the successful bidder had rendered excellent service to the Authority over the past four years. The variance between the bid of the lowest bidder and that of the concern which obtained the contract was \$.016 per barrel or a total difference of \$104.77 on the estimated quantity of oil used.

**Architect's Fees - Project 200-2:** It was noted that the architect for this project had been paid a basic fee of \$107,434.13 in connection with the construction of this project. In addition he submitted an invoice for extra services in the amount of \$10,498.02. This latter bill was submitted to the State Housing Board for approval and in a letter dated September 11, 1952, the former Chairman of the State Housing Board stated:

"In respect to these items this office is of the opinion that a payment of \$1,039.88 appears to be the total amount with respect to extra services by the architect which could qualify under subparagraph (g) of the architect's contract."

Subsequently, however, the Authority resubmitted the items to the State Housing Board in the form of an amendment to the architect's contract and as a result, payment of \$9,458.14 was authorized. This latter amount represents the difference between \$10,498.02, the amount originally requested, and the amount of \$1,039.88 which was approved originally by the former Chairman of the State Housing Board. It was also noted in this connection that this payment had been made by the Authority before such payment was actually approved by the State Housing Board.

**Acting Clerk of the Works - Project 200-2:** It was noted that an employee had been paid \$70.00 per week as Acting Clerk of the Works until April 1, 1953, more than one year after the project completion date. Amounts so paid to him were actually charged to Development Costs. It is learned that this individual actually functioned as the maintenance foreman after the completion of the project.

It is, therefore, suggested that amounts paid to him subsequent to the completion date of the project be transferred to Administrative Costs.

**Allowance for Installation of Electric Ranges - Project 200-2:** Several previous audit reports have commented on the fact that an allowance of \$40.00 per unit had been granted by the local electric utility company toward the installation of electric ranges. Because of this an item totaling \$9,600.00 is being contested because the electrical



contractor who installed the equipment contends this allowance is due him rather than to the Authority. It is suggested that effective steps be taken to adjudicate this matter.

Chapter 372: Under provisions of Chapter 372 of the Acts of 1946, as amended, these units should be available for sale during the current year. It is understood that the Authority has notified those tenants living in this project of this possibility. It is understood that this Authority has requested the assistance of the State Housing Board with regard to the necessary procedures to be followed and also has requested advice as to the methods of determining selling prices of the respective units.

Construction of Project 200-2: Previous audit reports have commented in detail on the many defects in the construction of this project. It was learned that during the period covered by this audit several conferences have been held between the Authority and the contractor regarding the various items in question. In this connection it was learned that the contractor agreed to take care of the defects in construction.

The Chairman of the Authority, however, declined to comment on the status of these defects and indicated that the Authority had turned this matter over to the State Housing Board for their consideration and recommendation. The balance of the contract retention account for this contract on July 31, 1953 totaled \$148,187.61. During the audit period, the following amounts were released to the general contractor:

Change Orders Nos. 39, 40 and 41	\$ 17,719 80
Contract Retentions:	
To Sub-contractor	50,641 24
U. S. Internal Revenue Levy for Taxes	6,836 06
To General Contractor	32,375 01
	<u>\$107,572 11</u>

#### WORCESTER HOUSING AUTHORITY

REPORT NO. 54-H-13

#### Temporary Construction Projects

Surplus: At the end of the 1952 year, the records of this project indicated a surplus balance of \$10,053.38. This amount has not yet been transferred to the City of Worcester. It was learned that inasmuch as this project is ready to be closed out, all of the accumulated surplus will be transferred to the City of Worcester at that time.

Tenants' Accounts Receivable: The balance of the Tenants' Accounts Receivable account on July 31, 1953 was \$300.28, which was the amount due from former tenants. It is suggested that steps be taken to either collect or dispose of these items.

#### Project 200-1

Commonwealth Contribution: It is anticipated that the contribution for the third year under permanent financing will be \$48,032.01, computed as follows:

2 1/2% of the Development Cost	\$68,000 00
Less:	
Prior Year's Surplus Reserved for	
Contribution Reduction	19,967 99
	<u>\$48,032 01</u>

This amount will probably be paid to the Authority's fiscal agent, the National Shawmut Bank of Boston, on or about September 15, 1953.

Development Fund - Outstanding Check: The previous audit report commented that a check issued in October 1951 for \$500.00 was still outstanding at that time and that it was being held by the attorney of the Authority because of a pending law suit. There is no change to date in this situation and it is recommended that this check be canceled and that a new check be issued when it becomes necessary.

Tenants' Accounts Receivable: It was noted that the balance in the Tenants' Accounts Receivable account was \$436.30 on July 31, 1953, of which \$245.30 was due from vacated tenants. Steps should be taken forthwith to either collect or charge off the items which comprise the latter item.

Project 200-2

Commonwealth Contribution: The contribution for the first year of operations under permanent financing was \$114,100.00 and was computed as follows:

2 1/2% of Development Costs	<u>\$114,100.00</u>
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Of this total contribution due, \$28,525.00 was received on March 31, 1953 and the remainder of \$85,575.00 on August 31, 1953.

These amounts were paid to the Merchants National Bank of Boston, the fiscal agent of the Worcester Housing Authority.

Certificate of Completion - Part II: It was noted that this certificate has not yet been executed for this project, because of legal litigation which has developed between a sub-contractor and the general contractor.

Tenants' Accounts Receivable: The balances in the Tenants' Accounts Receivable account totaled \$545.50 on July 31, 1953, and is all owed by former tenants. Steps should be taken to enforce collection of such amounts.

Rental Income Loss - Insurance: The rental income loss due to recent tornado is based on the rent roll prior to the destruction of the project and will be so prorated until the project is again completely occupied. The Accrued Accounts Receivable - a/c Rental Loss as of July 31, 1953 was \$26,666.75.

Curtis Apartments - Project 200-2 - Equipment, Office Furniture and Fixtures, Tools, etc.: An effort was made to establish an inventory of equipment, office furniture and fixtures, tools, etc., based on the prior audit's inventory and supplemented by expenditures for such items prior to the tornado. It was noted, however, that practically all of the items so listed were either destroyed or damaged. This was brought to the attention of the Executive Director and it was understood that steps will be taken to recover their cost from the insurance company.

Disaster Fund - Project 200-2: As a result of the tornado which struck Worcester on June 9, 1953, damages estimated between \$5,000,000.00 and \$6,000,000.00 was caused to this Authority's Great Brook Valley Avenue Development, which comprised 600 units of the Federally aided project and 390 units of the State aided project.

On the day following the tornado a special meeting of the Authority was held. The minutes of this meeting indicated that it was the consensus of opinion that because of the great amount of damage to private property as well as to the projects, local contractors would be heavily taxed to meet the requirements of private property owners, therefore they probably would not be in a position to undertake the reconstruction of the projects. Consequently it was voted:

"That, with the approval of the Chairman of the State Housing Board (the assurance of both the Chairman of the State Housing Board and the Public Works Commissioner of the Commonwealth expressing the Governor's approval pursuant to the proclamation of the emergency caused by the tornado) the Authority authorize and direct the original contractors, Platt Contracting Co. Inc. and B. Perini & Sons, Inc. to do the protective, restoration and reconstruction work necessary to restore the project to its original status. Compensation to such contractors to be on an actual cost plus 5% basis, agreed to be the above contractors, who were both represented at the meeting."

It was further agreed to pay the Architect 1 1/2% of all costs as his fee.

The General Court enacted emergency legislation and appropriated \$5,000,000.00 to aid this area. This legislation - Chapter 651 of the Acts of 1953 - became effective on July 2, 1953.

The reconstruction of this project has continued satisfactorily and re-occupancy began on August 1, 1953. Prior to the completion of this audit on November 15, 1953, 355 units had already been re-occupied. During this period the project had been vacated of all its tenants, and they were in most cases, housed in trailers which came from so-called "trailer pools" throughout the area.

The Authority engaged R. L. Whipple Co. of Worcester to remove all the debris from the site at Lincolnwood and also to install facilities for the trailers which were to



be housed on the Lincolnwood site. Compensation was based on the actual direct cost for such work plus 7 1/2% thereof to cover overhead expenses.

The Authority requested of the City of Worcester that trailers be provided as emergency housing for tornado disaster families. It was noted that the rental of the trailers was \$35.00 per month including water and electricity for those installed at the Lincolnwood site and \$35.00 per month for home sites.

The following procedure was followed with respect to payments to the different contractors:

"The contractors present the bills to the Construction Advisor, who, after approving them, forwards them to the Authority, where the bills are vouched and approved by representatives of the insurance company, the State Housing Board and the Accountant of the Authority before payment is made."

The following represents a schedule of costs of repairs, etc., both paid and proposed to November 30, 1953:

Contractor #1		\$ 946,259 96
Contractor #2		245,070 27
Architect		18,095 00
Miscellaneous		8,180 08
Site Contractor		12,216 96
Total Payments November 30, 1953		<u>\$1,229,822 27</u>
Requisitions Payable (As of November 30, 1953):		
Contractor #1	\$277,416 26	
Contractor #2	49,249 20	326,665 46
		<u>\$1,556,487 73</u>
Estimates Architect Fees on Requisitions Payable (1 1/2%)		4,900 00
Anticipated Costs to November 30, 1953		<u>\$1,561,387 73</u>

It is understood that the foregoing is completely covered by insurance, and it was noted that advances have been received from insurance companies to November 30, 1953, in the aggregate of \$1,300,000.00.

By June 15, 1953, the Authority had computed refunds to tenants and payments were made as follows:

Rent Refunds	\$21,299 29
Security Deposit Refunds	9,925 00
	<u>\$31,224 29</u>

There still remain 30 apartments to be reconditioned before full occupancy will be achieved.

All of the former tenants who desired to return to their apartments are now again residing there. The remaining apartments will probably be occupied by new tenants as they become available. It is understood that these remaining apartments will be ready within two weeks.

Comprehensive Public Liability Insurance Rates: It was noted that the insurance policies in effect for this project were canceled by direction of the State Housing Board. These policies which had been paid for at the rate of \$.756 per unit per year were replaced with other policies to cost at the respective rates of \$6.79 for Project 200-1 and \$3.35 for Project 200-2, per unit per year.

#### STOUGHTON HOUSING AUTHORITY

REPORT NO. 54-H-14

Administration Fund - Canceled Checks: The previous audit report stated that several canceled checks could not be located by the Authority. In this connection it was again noted that checks numbered 27, 28 and 29, totaling \$254.23 had not been located. It is urged that every effort be made to have these checks available for examination in connection with the next examination.

**Development Fund Payments:** The previous audit report stated that Management expenses of \$1,698.38 had been erroneously paid from the Development Fund. It was again noted that this situation had not yet been adjusted.

In further connection with Development Fund payments it was also noted that several payments made during the current audit period which should have been paid by the Administration Fund to be charged to the operation of the project were erroneously paid from the Development Fund and charged to Development Accounts Payable.

It is recommended that these accounts also be adjusted.

**Tenants' Ledger:** It was noted that the detail trial balance of the tenants' ledger was not in agreement with its control account in the general ledger. While the audit was in progress these accounts which were incorrect in the amount of \$26.00 were adjusted.

**Acceptance of the Project:** It was noted that Part II of the Certificate of Completion had not been processed.

It was also noted that the general contract which had been awarded as of May 11, 1950 for the construction of this project had been terminated by this Authority as of January 4, 1951 because of an alleged breach by the contractor and the following reasons were advanced for this action:

".....especially having failed to supply enough properly skilled workmen and material, and failed to make prompt payments to the Subcontractors, and persistently disregarded instructions of the local Authority and Architect, and failed to observe and perform the provisions of the contract."

Subsequently the bonding company with the permission of the local Authority and the State Housing Board assigned this contract to another concern.

As of the date of audit, this contract had not been entirely completed, and final payment had not yet been made.

**Contract Award and Incompleted Contracts Accounts:** It was noted that these general ledger accounts did not reflect a payment to the contractor in the amount of \$10,000.00 or net change orders totaling \$1,191.00. It is again recommended that the necessary adjustments be effected.

**Commonwealth Contribution:** It was noted that the State Housing Board directed the Authority to reserve \$640.00 of its surplus which totaled \$4,980.99 after the first fiscal year under Permanent Financing for the purpose of reducing the amount of the Commonwealth Contribution for its second fiscal year. By this arrangement the Commonwealth's Contribution will be reduced to \$6,985.00. There was also transferred to the Operating Reserve the sum of \$3,204.79, leaving a balance in the surplus account of \$1,136.20.

**Project Inspection:** During the current audit a visual inspection of the exterior of the dwelling and the project area was made, and it was noted that the paint on the buildings appears to be in poor condition.

**Compensation to Authority Members:** During the period under audit a payment in the amount of \$127.00 was made to a member of the Authority, who it is understood distributed it to all Authority members in proportionate shares. It is recommended that all such future payments be paid individually to members of the Authority. In further connection with this matter it was noted that the local Authority had not received the required prior approval of the State Housing Board before making this payment. According to the State Housing Board, the compensation to members should be based upon cash collections for rentals and on this basis payment to the Authority members should have been \$118.00.

**Comprehensive Public Liability Insurance Rates:** It was noted that the policy in effect for this project was canceled by direction of the State Housing Board. This policy which was at the rate of \$.756 per unit per year was replaced with another to cost at the rate of \$1.87 per unit per year.



## BROCKTON HOUSING AUTHORITY

REPORT NO. 54-H-16

General

**Pay Roll:** It was noted that time records are not being maintained and since such records should be the basis for pay roll charges, it is recommended that they be maintained.

**Payments:** It was noted that payments in lieu of taxes to the City of Brockton and compensation to the members of the Authority were made without prior approval of the State Housing Board. It is suggested that such approval be obtained before future payments of this nature are made.

Chapter 372

**Surplus:** It was noted that the operating surplus of \$7,424.54 for this project for the 1952 calendar year was turned over to the City of Brockton. It was further noted that the result of operations for the first eight months of the 1953 calendar year indicated a surplus of \$5,588.21. It is understood that the entire surplus for the 1953 calendar year will be turned over to the City of Brockton early in 1954.

**Sale of Units:** It was learned that as of the date of this audit the sale of these units was in the appraisal stage and was awaiting final approval of the State Housing Board.

**Budget for 1952:** A comparison of the operating budget with the results of actual operations for the 1952 fiscal year could not be made because this budget was not available. No indication was seen that an operating budget had been prepared and submitted to the State Housing Board for approval.

Project 200-1

**Commonwealth Contribution:** It was noted that the State Housing Board directed this Authority to reserve its entire surplus from the second fiscal year under Permanent Financing which ended December 31, 1952, for the purpose of reducing the amount of the Commonwealth's contribution for the subsequent year. This surplus which amounted to \$8,840.64 thus reduced the Commonwealth's contribution to \$19,909.36.

**Comprehensive Public Liability Insurance:** By direction of the State Housing Board on July 24, 1953 insurance coverage which had been written up in 1953 and which would have expired in 1956, was canceled on July 27, 1953 and re-written with another company to be effective as of the same date. The premium on the canceled policy for a three year term, was \$281.48, whereas the premium paid on the new policy, for a one year term, was \$252.97. The coverage in both policies appeared to be comparable.

**Bond and Coupon Register:** In compliance with a suggestion made by the State Housing Board, dated July 21, 1953, this Authority is now considering the installation of a canceled bond and coupon register.

Project 200-2

**Change Orders:** Although the Authority has received approval for change orders numbered 15 and 17, totaling \$1,212.36 they were not reflected on the books of accounts. It is therefore recommended that all such change orders be entered on the books as they are approved.

**Income on Investments:** It was noted that due to an error, income realized on investments amounting to \$350.27 had not been transferred to reduce the development costs for interest. While this audit was in progress the necessary adjustment was effected.

**Comprehensive Public Liability Insurance:** By direction of the State Housing Board on July 24, 1953 insurance coverage which had been written up in 1952 and which would have expired in 1955, was canceled on July 27, 1953 and re-written with another company to be effective as of the same date. The premium paid on the canceled policy for a three year term was \$113.50, whereas the premium paid on the new policy, for a one year term was \$128.95. The coverage in both policies was apparently the same.

## EVERETT HOUSING AUTHORITY

REPORT NO. 54-H-17

**Escrow Fund - Coburn Estate:** This fund was established as a depository for income received from the rental of certain property known as the Coburn Estate. As of the date of audit, the balance in this account totaled \$2,070.00.

In this connection it was noted that expenditures of \$325.64 made from the funds of Project 200-1 prior to the current audit period for expenses properly chargeable to this fund had not been reimbursed as of the date of audit. It is suggested that this matter be acted upon by the Authority at its next meeting.

**Project 200-1 - Operations under Permanent Financing:** The operating statement of this project for the first fiscal year under Permanent Financing which ended June 30, 1953 reflected a loss of \$65,921.48 before the receipt of the maximum Commonwealth Contribution of \$77,050.00. The surplus of \$11,128.52 resulting from the application of this subsidy is to be transferred to the Operating Reserve.

**Project 200-1 - Operating Reserve:** It was noted that the charges to the Operating Reserve account for the period under audit amounted to \$19,974.74. Of this amount, \$15,891.84 was expended for replacing faulty water heaters and the balance of \$4,082.90 was the cost of painting buildings on which the paint had blistered and peeled.

**Project 200-1 - Outstanding Checks:** The bank reconciliations of the Development and Administration Funds indicated that certain checks had been carried as outstanding for periods longer than one year.

In this connection it was noted that the bank had been notified to stop payment on one of these checks. It was further noted that another check which was carried as outstanding had never been issued because it was voided. The status of these two checks was brought to the attention of the Authority's accountant and the necessary adjustments were made while the audit was in progress.

It is suggested that the Authority adopt the policy of stopping payment on all checks which have been outstanding for longer than one year.

**Project 200-1 - Insurance:** The equipment of this Authority is now insured by a Contractor's Equipment Floater policy in the amount of \$15,000.00. The premium for the one-year period ending November 24, 1953 amounted to \$150.00.

In this connection it was noted that the insurance in effect is greater than the actual cost of the equipment. It is therefore recommended that the coverage be correspondingly reduced on any future insurance of this nature, and it is also suggested that the Authority discuss the necessity of this coverage with the State Housing Board with a view to its discontinuance because of its high cost.

It was further noted that the cost of other types of insurance which should have been borne by the two projects had been charged to Project 200-1 and it is therefore recommended that the expense of the general insurance be prorated among the several projects.

**Project 200-1 - Tenants' Security Deposits:** It was noted that there was in the custody of the Authority five deposits of tenants who no longer resided in the project. It was also determined that two of these deposits should have been returned to the former tenants, and the others should have been applied against amounts owing to the Authority.

This matter was brought to the attention of the Authority's accountant, and the refunds together with the other necessary adjustments were effected while this audit was in progress.

**Project 200-1 - Tenants' Accounts Receivable:** As of the date of audit, the aggregate of the debit and credit balances in the Tenants' Accounts Receivable ledger did not agree with the balances appearing in the related control account in the general ledger. Although the balance did agree these differences were due to the fact that certain balances had been omitted from the Authority's compilation of the total debit and credit balances. These items were brought to the attention of the accountant.

In this connection it was further noted that no trial balance of the Tenants' Accounts Receivable ledger was available in the files of the Authority since that dated May 31, 1953. It is therefore suggested that a copy of all such trial balances be retained by the Authority in its files.

**Project 200-1 - Inventory:** A test check of the inventory of this project, as reflected by its records as of September 30, 1953, indicated that it included items which had been purchased from the funds of Project 200-2. It was also noted that certain items, which were on hand as of that date, had not been included.



It is suggested that if the Authority is to maintain financial control of inventories that it segregate supplies purchased for the projects.

**Project 200-2 - Temporary Financing:** This project was not entered into Permanent Financing at the close of the Initial Operating Period. The State Housing Board in its notice of sale of the proposed bond issue for this project restricted the interest rate to a maximum of 2 1/2%. Since there were no bids received complying with this interest rate restriction, the State Housing Board has continued the financing of the project on a temporary basis.

**Project 200-2 - Accounts Payable:** It was noted that the records of this project did not include \$668.90 which was owed to Project 200-1 for disbursements made for the expenses of Project 200-2 in October 1952. This matter was brought to the attention of the Authority's accountant and the necessary adjustments were made while the audit was in progress.

**Project 200-2 - Maintenance Equipment:** The tabulation of bids received for certain maintenance requirements indicated that the Authority had not made the purchase from the lowest bidder of record whose bid price was \$1,107.17, but from another bidder who quoted a price of \$1,310.35. There was no evidence in the minutes of the meetings to indicate that a tabulation of the bids had been presented to the members for their appraisal and it was further noted that the Authority had not submitted such a tabulation to the State Housing Board as required.

It is suggested that the Authority conform to the purchasing policies set up in its Management program on all future purchases and that State Housing Board approval be obtained when required.

**General - Cash Count:** The cash count on September 28, 1953 developed a shortage of \$41.83 in the funds of Project 200-1 and an overage of \$32.75 in the funds of Project 200-2. It was further noted that the total cash shortage of Project 200-1 for the month of September totaled \$45.84.

It is recommended that the cashier reconcile the cash on hand with the duplicate rent receipts daily, and in this way, possibly such variances may be held to a minimum.

**General - Members' Allowances:** It was noted that the members of this Authority are allowed \$35.00 each quarter for automobile and telephone expenses from the funds of Project 200-1, and \$25.00 was allowed from the funds of Project 200-2. It would appear that these allowances might have been prorated between the two projects on a unit basis of 81% for Project 200-1 and 19% for Project 200-2 rather than the present basis of 58% and 42% respectively.

**General - Inter-Project Accounts:** It was noted that the balances of the Accounts Receivable and Accounts Payable of these projects reflected amounts which had been outstanding for some period of time and which were due from or owed to the same project or fund. This matter was brought to the attention of the Authority's accountant and the necessary adjustments to offset these balances were effected while the audit was in progress.

**General - Pay Roll Authorizations:** An examination of the pay roll indicated that neither the employment nor the rates of pay of five individuals employed as temporary painters had been recorded in the minutes of the meetings. It is recommended that all authorizations for employment or rates of pay be formally acted upon by the members.

**Comprehensive Public Liability Insurance Rates:** It was noted that the insurance policies in effect for this project were canceled by direction of the State Housing Board. These policies which had been paid for at the rate of \$.756 per unit per year were replaced with other policies to cost at the respective rate of \$2.98 for Project 200-1 and \$2.81 for Project 200-2 per unit per year.

SWAMPSCOTT HOUSING AUTHORITY

REPORT NO. 54-H-18

**Surplus from Operations:** The surplus from operations for the second fiscal year under Permanent Financing totaled \$3,954.27 and will be used as a reduction of the Commonwealth's Contribution for the third fiscal year under Permanent Financing.

The balance in the Operating Reserve on the date of audit totaled \$9,335.10 indicating that the maximum of \$10,800.00 as suggested by the State Housing Board should be

attained before June 1954. On this basis it will have been established in approximately three and one-half years and not on the basis of five years as was originally intended.

**Comprehensive Public Liability Insurance Rates:** It was noted that the policy in effect for this project was canceled by direction of the State Housing Board. This policy which had been paid for at the rate of \$.756 per unit per year was replaced with another to cost at the rate of \$1.87 per unit per year.

## BEVERLY HOUSING AUTHORITY

REPORT NO. 54-H-19

### General

**Potential Income:** Attention is directed to the fact that the method used to establish potential rental incomes was incorrect. This income was not established until the end of the month and consequently indicated the net charges after move-outs, etc., without showing any amounts for vacancy losses. While there appeared to be no sizeable losses of this nature during this audit period, the method should be changed to that prescribed in the State Housing Board's Manual of Accounts.

**Tenants' Ledger Accounts:** The previous audit report stated that tenants' ledger sheets did not include all required information. The lease number, the date of occupancy, the date of vacating and the amount of rents charged were not shown in the spaces provided.

Inasmuch as these conditions remain the same, attention is again directed to them.

**Appropriation Fund:** It was noted that the Authority had been allotted funds by the City of Beverly to be used for unusual expenditures which could not be properly chargeable directly to the projects. The only record maintained of this fund was a check book. Previous audit reports have urged that books of account be established, but as yet, this has not been arranged. As of the date of audit there was a balance of only \$48.72 in this fund.

### Title V

**Cash Receipts and Disbursements:** It was noted that certain entries pertaining to the Tenants' Security Deposits account for the month of January 1953 were incorrectly entered. In this connection it was noted that the balance on January 1, 1953 was \$255.00. During the month of January the receipts totaled \$15.00 and disbursements totaled \$30.00. The receipts, however, had been deducted from the balance instead of being added to it and the disbursement was not recorded. Of course, because of the complementary errors the balance was correctly represented.

It was further noted that a refund had been made of a deposit to a tenant who had not originally made it. The tenant moved from the project and the records reflected a balance due for rent of \$20.00. Because of the charge-back due to the incorrect credit the balance due was increased to \$30.00. This item was adjusted while the audit was in progress.

**Tenants' Accounts Receivable:** During the period of audit it was noted that tenants' accounts totaling \$2,213.72 had been written off because they were uncollectible after the necessary approval had been received from the State Housing Board. In addition to these accounts there were others totaling \$873.06 which were due from tenants who had vacated their apartments. These were in the hands of an attorney for collection.

From the foregoing it is obvious that a more rigid system of collection of rents should be adopted. It is understood that the present director is taking steps to correct the prevailing routines.

It was noted in connection with the charge-off of the aforementioned tenants' accounts that they had been incorrectly handled on the books of account. The amount involved had been passed through the Vacancy and Collection Loss account as well as through the Tenants' and Reserve accounts. It is suggested that the necessary adjustments be effected forthwith.

**Sale of Quonset Huts:** The Title V project is identified as Quonset Huts and it was noted that they are being sold as they are vacated. Prior to the date of this audit 36 huts had already been sold for a total of \$2,500.00. A record of this transaction did not appear on the books of the Authority as the payment was made to the City of Beverly.



While this audit was in progress an additional 8 huts were sold for a total of \$1,655.60. It was noted, however, that the entries of these transactions are represented on the books of the Authority and the proceeds will be included in the settlement with the city at the end of the year.

**Payments in Lieu of Taxes:** It was noted that the surplus settlements at the end of each year are entered in a "Special Account" by the City of Beverly and the charges for this project's taxes are represented in it. Because of this arrangement, this project's accounts do not reflect an amount for payments in lieu of taxes.

#### Project 200-1

**Architectural Contract:** Although this project has been in permanent financing since April 1, 1951, the question of an overpayment to the architect in the amount of \$5,715.27 still remains unsettled. This matter was mentioned in the two previous audits but as yet, no definite action has been taken. It was noted that a letter dated March 13, 1953 from the State Housing Board advises that in the near future an opinion would be given for the fee computation.

**Commonwealth Contribution:** Attention is directed to the fact that the entire subsidy contribution by the Commonwealth is paid to the fiscal agent in September of each year although the larger part of it is not required until March of the succeeding year. It is suggested that this contribution might possibly be retained for six months longer.

#### Project 200-2

**Accounts Payable:** It was noted that there is still a balance of \$2,168.47 of the Accounts Payable which were set up when this project went into permanent financing on July 1, 1952. Inasmuch as there appear to be no such accounts payable as of the date of this audit, it is suggested the accounts be charged off the books and credited to Surplus. This will in effect reduce the Commonwealth's subsidy contribution for the subsequent fiscal year.

In this respect it was indicated that these funds might possibly have been used for authorized painting and landscaping. However, it was learned that a part of the surplus for the fiscal year ending July 1, 1953 has been segregated for these improvements, eliminating any possible need of it in the Accounts Payable category.

**Architectural Contract:** Payments to the architect appeared to be \$482.28 in excess of the amount approved by the State Housing Board. It was noted that this matter is being reviewed by the State Housing Board with respect to a possible revision of the computation of the fee.

**Insurance:** It was noted that a policy covering Comprehensive Liability was canceled although it was not to expire until December 18, 1954. This policy was replaced with a one year policy which will expire on July 27, 1954. The policy canceled was at a rate of \$.76 per unit per year, while the new policy will cost \$2.24 per unit per year.

**Working Capital:** This account reflects a balance of \$292.50 and is the remainder of the amount received from the sale of bonds at the time of permanent financing. It is suggested this account be closed and this balance credited to the Operating Reserve.

#### LAWRENCE HOUSING AUTHORITY

REPORT NO. 54-H-20

**Tenants' Accounts Receivable - General:** The Tenants' Accounts Receivable ledger showed the following balances as of the audit date:

Chapter 372 Projects (100 Units)	\$2,423 10
Project 200-1	4,839 91
	<u>\$7,263 01</u>

It was further noted that accounts totaling \$763.10 were written off as uncollectible from the Chapter 372 Projects during the audit period.

The executive director indicated that the seeming large amounts of rents due this Authority was occasioned by difficult economic conditions in this particular area.

Trip to Baltimore - General: Attention is directed to the fact that the rubbish pickups made by the City of Lawrence are apparently inadequate for the needs of this Authority and therefore the purchase of special equipment at an estimated cost of \$20,000.00 to deal with this problem is under consideration.

In this connection two board members and the executive director went to Baltimore, Maryland where the type of equipment under consideration is being used for rubbish disposal.

Change Order #3 - Project 200-2: Attention is directed to Change Order #3 which deals with the substitution of gypsum plank roofs for concrete and steeltex roofs prescribed in the contract specifications and which was approved by the Authority and the State Housing Board in the amount of \$10,972.91. In connection with this matter the architect for this project stated in a letter dated December 17, 1952 as follows:

"Re - Housing Project  
Lawrence 200-2"

"We have your letter of Dec. 12, 1952 asking for our comments regarding the letter you received from the State Housing Board relative to the Change Order on the roofs on this project.

"In regard to their comment that we check the breakdown of cost, we wish to re-iterate our stand in this matter - namely - that in our opinion the contractor is not entitled to any additional cost for the work involved in the change.

"Inasmuch as the Chairman of the State Housing Board has ruled that the contractor is entitled to receive payment for this work, we believe that he should also be the judge as to the amount to be paid.

"Any checking that we could do would be futile, as our answers could only be zero."

The executive director further stated that the Authority had not approved this change order when it was originally requested by the general contractor but at a later hearing the former Chairman of the State Housing Board ruled that the contractor was entitled to the payment referred to and payment of \$10,792.91 was subsequently made.

Storage Charges - Project 200-2: In January 1952 ranges and refrigerators were purchased by the Authority for Project 200-2. Since then storage expenses totaling \$1,995.50 have been incurred for them. This project has not yet been officially accepted as completed and it is anticipated that tenancy will commence in November 1953. The executive director stated in this connection that the ranges and refrigerators were purchased in January 1952 to insure their procurement because at that time it was difficult to obtain such items without delay.

It is therefore suggested that possibly the construction contractor may be charged part of these storage expenses because had the project been completed according to the time originally specified such charges would have been unnecessary.

Public Liability Insurance - Project 200-1: It was noted that during the audit period the public liability insurance policy on this project was canceled and another policy substituted at a subsequent date under direction of the State Housing Board. A comparison in the rates follows:

	<u>Annual Premium</u>
Old Policy	\$ 194 46
New Policy	1,242 75

Sale of Chapter 372 Units: It was noted that the Authority is currently preparing a list including the contemplated selling prices for the Chapter 372 units. These units have already been valued by an independent appraiser and all tenants have been notified of the impending sale of these units.



## GRAFTON HOUSING AUTHORITY

REPORT NO. 54-H-21

Annual Contribution: The Commonwealth may make an annual contribution of not more than 2 1/2% of the total development costs of the project. The contribution for the second year under permanent financing was \$3,641.00 and was computed as follows:

2 1/2% of the Total Costs	\$3,900 00
Less:	
Amount Reserved from Prior Year's	
Surplus for Subsidy Reduction	<u>259 00</u>
	<u>\$3,641 00</u>

This subsidy was received by the Worcester County Trust Company, Worcester, Massachusetts, the fiscal agent for the Grafton Housing Authority, on or about September 15, 1952.

The contribution for the third year under Permanent Financing was \$3,026.30, computed as follows:

2 1/2% of the Total Costs	\$3,900 00
Less:	
Amount Reserved from Prior Year's	
Surplus for Subsidy Reduction	<u>873 70</u>
	<u>\$3,026 30</u>

This subsidy was also received by the Worcester County Trust Company, Worcester, Massachusetts, the fiscal agent of the Grafton Housing Authority, on or about September 15, 1953.

Miscellaneous Bank Charges: It was noted that the bank where the Administration Fund account is carried, charged for the cost of postage for mailing the monthly bank statements to the Authority. This practice was questioned and discussed with the Executive Director who notified the bank that this practice was somewhat unusual. As a result, it is understood that the practice will be discontinued and the charges heretofore made will be refunded.

Prior Year's Comments - Accounts Payable: The previous audit report stated that the records indicated an Accounts Payable of \$117.73 which appeared to be unsubstantiated. It was noted that this account was adjusted by closing it to the Working Capital account.

Management Program - Rents: The previous audit report also stated that the Management program in use had not been approved or authorized by the Chairman of the State Housing Board. In this connection it was noted that this program has since been approved and authorized by the Chairman of the State Housing Board.

Comprehensive Public Liability Insurance Rates: It was noted that the insurance policy in effect was canceled by direction of the State Housing Board. This policy which had been paid for at the rate of \$.756 per unit per year was replaced with another to cost at the rate of \$2.25 per unit per year.

## GLOUCESTER HOUSING AUTHORITY

REPORT NO. 54-H-22

Project 200-1 - Water Seepage in Cellars: Previous audit reports commented on water seepage conditions in various cellars. In this connection it was noted that 23 sump pumps were purchased and it now appears that this condition has been corrected.

Projects 200-1 and 200-1A - Architect's Fee: It was noted that the architect was paid a total of \$62,541.93 on Project 200-1 and \$8,718.30 on Project 200-1A; however, the records of the State Housing Board indicate that this fee should have been \$58,019.43 for Project 200-1 and \$9,748.47 for Project 200-1A.

It was learned that the overpayment of \$4,522.50 on Project 200-1 on the basic architectural fee was caused because the architect's analysis of the cost of structures was different than the analysis used by the State Housing Board.

In this connection the following exchange of correspondence is shown:

COPYTHE COMMONWEALTH OF MASSACHUSETTS  
STATE HOUSING BOARD  
90 Tremont Street, Boston 8

OFFICE OF THE CHAIRMAN

May 27, 1953

Mr. Allen Grant, Jr.  
Executive Director  
Gloucester Housing Authority  
128 Main Street  
Gloucester, Massachusetts

Dear Mr. Grant:

On Wednesday, March 25, 1953 a conference was held in this office relative to the architectural fee for State-Aided Housing Project, Gloucester 200-1. At that time this conference was continued until April 8th in order to give the representatives of the architect more time for study.

Following the conference of April 8th considerable time has been spent in studying the facts brought out at the two hearings, and as a result, it is the decision of this office that the ----- is indebted to the Gloucester Housing Authority in the sum of Four Thousand, Five Hundred and Twenty-Two Dollars and Fifty Cents \$4,522.50.

Assistant Attorney General Abelson, who is the legal advisor for the State Housing Board had conferred with -----, counsel for the ----- and they are in agreement as to this amount.

In view of the above, it is our opinion that your Authority should immediately contact ----- and request a payment to the Authority in the sum of \$4,522.50 in order to fully terminate this discussion relative to architectural fees. We do not feel that there will be any hesitancy on the part of the architect to repay this sum.

Very truly yours,

/s/ HARLAND A. McPHETRES  
DirectorCOPYTHE COMMONWEALTH OF MASSACHUSETTS  
STATE HOUSING BOARD  
90 Tremont Street, Boston 8OFFICE OF THE CHAIRMAN  
IN REPLY REFER TO  
DEVELOPMENT

June 5, 1953

Allen F. Grant, Jr., Executive Director  
Gloucester Housing Authority  
128 Main Street  
Gloucester, Massachusetts

Dear Mr. Grant:

Reference is made to your letter of May 29 in which you request a breakdown of the amount of \$4,522.50 in connection with the architectural fee question involving Gloucester 200-1.

The figure of \$4,522.50 was arrived at by subtracting the amount of \$58,019.43 (the total architectural fee is computed on the basis of Annex B using the "A" rate) from the amount of \$62,541.93 which amount has been listed in your letter of April 29, 1953 as the amount paid to the architect on this basic contract.



The following is a summary of the fee breakdown amounting to \$58,019.43:

Lawns and Planting Fee	15,283.35 x .09188666	\$ 1,404.34
Site Engineering Fee	67,381.33 x .0603070409	4,063.57
Fee for Structures	1,063,106.31 x .04943204321	52,551.52
		<u>\$58,019.43</u>

This letter is intended only to answer the question posed in your letter of May 29, 1953.

Very truly yours,

/s/ H. A. McPHETRES  
HARLAND A. McPHETRES  
Director

It was noted that to date of audit, no action has been taken to obtain the refund from the architect.

Attention is also directed to the fact that the architect is still owed \$1,030.17 on Project 200-1A which, it is understood, will be paid to him as soon as Part II of the Certificate of Completion is accepted.

Vacation and Sick Leave: It was noted that the management program in force prior to August 21, 1953 included no provisions for sick or vacation leave for the maintenance personnel. However, during this period this personnel was paid for sick and vacation leave. It was further noted that on August 21, 1953 a new management program was accepted which took into consideration vacation and sick leave for these employees.

Invoice Paid Twice - Project 200-1: It was noted that on December 18, 1952, check number 1552 in the amount of \$3.18 was issued to pay invoice 6305. On January 14, 1953, check number 1622 was also issued for \$3.18 to pay for the same invoice. This item was brought to the attention of the Authority and on November 14, 1953, a credit memo of \$3.18 was received adjusting this matter.

General - Visit to the Projects: While this audit was in progress the projects were visited. In this connection the following conditions were noted:

#### Temporary Projects

Allen Street - The Linasbestos baseboard covering the underpinning of Apartment 35F was smashed in on both sides creating a fire hazard and a cold floor for the tenant. This was reported to the office by the tenant on October 19, 1953 and no corrective action has yet been taken.

Burnham Street - It was also noted that the roll brick siding of Apartment 34A was torn off and as yet not replaced.

General - Personnel: It was noted that the services of the City Auditor to audit the books of the Authority are engaged at the rate of \$200.00 per year.

In this connection the State Housing Board waived Section 17 of the Contract for State Financial Assistance.

Legal Services - Project 200-1A: It was noted that the attorney for this Authority is being paid on occasions for duties which appear to be included in his legal contract. Among the separate billings are those which include the following itemizations:

1. January 5, 1953 - Attendance at regular and special meetings during calendar year 1952 \$100 00
2. February 9, 1953 - Handling changes in resolutions and records of Authority regarding regular and annual meeting dates and ratification of former meetings 10 00
3. May 4, 1953 - Work with Chairman and Clerk of Works on materials and claims embodied in certificate of completion papers 30 00

4. August 7, 1953 - Checking changes in State financial contract and securing approval of Mayor

\$15 00

As a matter of information the following section within the Contract for Legal Services indicates those services which the attorney is intended to provide:

"1. The Attorney agrees to perform all legal services in connection with, and to be responsible for all legal phases of, the development, initial occupancy, and financing of said project, except matters relating to the acquisition of land for the Project, during the entire period of development and construction of said Project, and until the final completion of said Project, and for a period of six months thereafter. Said services shall include, without limiting the generality of the foregoing: preparation of all legal documents and papers; preparation of forms of contracts or adaptations of forms furnished by the State Housing Board, with surveyors, and negotiators, architects, and appraisers advice and assistance to the Authority, and the preparation of such documents as may be necessary in connection with exceptions and/or variances from zoning, building and inspection ordinances, by laws and/or regulations; the rendition of opinions of all matters submitted by the Authority (except opinions relating to the validity of notes or bonds of the Authority); supervision as to legality of the official minutes and record of the Authority; advising and consulting with all parties having dealings with the Authority; advice and assistance to the officers and employees of the Authority; approval of the legality of contracts and of all payments on contracts; handling of all legal questions and matters arising under contracts of the Authority; all legal work necessary in connection with the preparation and adoption of the management program for the Project, including the completion of all resolutions and forms necessary for the establishment of a complete management program; and the preparation of any and all documents relating to the issuance of obligations of the Authority, it being understood, however, that this agreement obligates the attorney to perform all legal work in connection with the issuance of definitive bonds for said Project (except opinions relating to the validity of such bonds) whether such bonds are issued before or after the date which is six (6) months from the date of final completion of said Project, and all legal work in connection with any temporary loan notes which may be issued by the Authority in connection with the Project prior to the issuance of said definitive bonds."

Deposit of Cash: It was noted that currency was allowed to remain in the office safe over the following week ends:

		<u>Amount</u>	
<u>Date Collected</u>	<u>Date Deposited</u>	<u>Temporary Project</u>	<u>Project 200-1</u>
October 10, 1952	October 14, 1952	-	\$273 20
January 23, 1953	January 26, 1953	\$125 00	122 00
February 6, 1953	February 9, 1953	247 33	-
February 20, 1953	February 24, 1953	-	256 35
March 27, 1953	March 30, 1953	126 25	135 35
June 5, 1953	June 8, 1953	152 00	-
June 12, 1953	June 15, 1953	115 00	-

It was further noted on the date this audit started that \$592.95 of cash had been on hand in the office safe for several days.

It is recommended that all cash receipts be deposited daily.

Pay Roll Records: It was noted that there were no time sheets or other records indicating hours actually worked or absent time of employees. It is suggested that steps be taken to provide a record of this nature.

Improper Charges to Miscellaneous Income: It was noted that a total of \$32.27 was improperly charged to Miscellaneous Income. This amount should have been charged as follows:



Reimbursement of Management Expenses	\$ 4 00
Reimbursement of Repairs, Maintenance and Replacements	28 27

Correcting entries were effected while the audit was in progress.

**Inadequate Utility Charges:** It was noted that during this audit period this authority collected \$3,556.65 from its tenants for electricity, but during that period it paid to the utility company the sum of \$3,812.08.

**Return of Remodelled Units to Owners:** It was noted that certain remodelled units had been returned to their owners upon the termination of leases, as follows:

127A Leonard Street	October 31, 1952
80 Pleasant Street	October 31, 1952
1074 - 1076 Washington Street	October 31, 1952
53 Eastern Avenue	October 31, 1952
27 Green Street	January 26, 1953
67 Eastern Avenue	June 15, 1953*

\* This owner repurchased his lease on April 21, 1953 by a payment of \$75.00.

It was further noted that only 4 units remain under the Remodeling category. These units are located at 31 Chapel Street in a remodelled schoolhouse.

On January 1, 1953 the Remodelled Units accounts were combined with those of the Temporary Units.

**Temporary Construction Projects - Surplus to City:** It was noted that on January 20, 1953 the City of Gloucester was paid \$10,855.65, which represents the surplus from operation of the Temporary and Remodelled Projects for the 1952 calendar year.

**Investments in United States Treasury Bills:** It was noted that certain excess funds have been invested in United States Government Securities, thereby reducing the interest charges during the development period.

**Status of Project 200-1 - Temporary Financing:** Although this project has been in occupancy since June 1950 with 120 units and since March 1952 with 40 other units, it is still in Temporary Financing, apparently because of a dispute with respect to Part I of the Certificate of Completion.

**Rent Due:** It was noted that \$1,263.15 was still due for rent from present and former tenants of the Temporary Construction Projects and that \$429.59 was due for rent from present and former tenants of Project 200-1.

It is suggested that more active steps be taken to enforce collection of these balances.

**Certificate of Purposes and Statement of Cash Requirements:** It was noted in comparing this certificate with the actual development costs that no amended form had been approved. On March 28, 1952 when the Contract for Financial Assistance had been amended from \$1,828,000.00 to \$1,850,000.00, this certificate should have also been amended. This Authority, however, used the old certificate but added \$22,000.00 to the Contingency account. This was brought to the attention of the Authority and on November 17, 1953 an amended form was received from the State Housing Board which was approved by the Housing Authority on November 30, 1953.

**Comprehensive Public Liability Insurance Rates:** It was noted that the insurance policies in effect for the protection of this project were canceled by direction of the State Housing Board. These policies, which had been paid for at the rate of \$.756 per unit per year, were subsequently replaced with other policies to cost at the rate of \$2.39 per unit per year.

NATICK HOUSING AUTHORITY

REPORT NO. 54-H-23

**Annual Contribution:** The Commonwealth may make an annual contribution of not more than 2 1/2% of the cost of the project.

The contribution for the second year under permanent financing was \$6,960.00 and was computed as follows:

2 1/2% of the Project Cost	\$12,500 00
Less:	
Amount Reserved from Prior Year's	
Surplus for Subsidy Reduction	<u>5,540 00</u>
	<u>\$6,960 00</u>

This contribution was paid to the First National Bank of Boston, the fiscal agent of the Authority, on or about December 15, 1952.

Accounts Payable - Development: It was noted that the records include an unsubstantiated Accounts Payable of \$158.46. The Executive Director indicated that he is awaiting instructions from the State Housing Board relative to the adjustment of this account.

## MILFORD HOUSING AUTHORITY

REPORT NO. 54-H-24

Annual Contribution: The Commonwealth may make an annual contribution of not more than 2 1/2% of development costs. The contribution for the third year under permanent financing was \$17,995.99 and was computed as follows:

2 1/2% of Total Costs	\$18,600 00
Less:	
Amount Reserved from Prior Year	
Surplus for Contribution Reduction	<u>604 01</u>
	<u>\$17,995 99</u>

This amount was paid to the National Shawmut Bank of Boston, the fiscal agent of this Authority, on or about March 1, 1953.

## SPRINGFIELD HOUSING AUTHORITY

REPORT NO. 54-H-25

Veterans' Temporary Housing Projects

Payments to the City of Springfield: This Authority has paid to the City of Springfield for the period under audit the following amounts:

Real Estate Taxes	\$21,216 00
Ground Rental	4,080 00
Operating Surplus	<u>15,948 71</u>
	<u>\$41,244 71</u>

Discontinuance of Renting: It was noted that the members of this Authority voted to discontinue the renting of apartments vacated subsequent to July 1, 1953 in any of its temporary developments. As of September 30, 1953, there were 62 vacant apartments at the three City-owned temporary sites.

Project 200-1

Accounts Payable Development: The previous audit stated in this connection:

"Although this project has been in Permanent Financing for over two years, a liability still exists to the architect for the balance of his approved contract fee. This liability has not been paid because the architects have not submitted final "as built plans" which were held to be a part of the contract by the Authority. It is suggested that the State Housing Board take some action to settle this dispute in order that this long outstanding liability might be liquidated."

In this regard, it was noted that the architect was paid an amount of \$9,662.25 in complete settlement. The funds were taken from the following sources:



Reserved from Development	\$9,401 83
Working Capital	248 56
Miscellaneous Expense - Management	11 86
	<u>\$9,662 25</u>

Reduction of Commonwealth Subsidy: The annual maximum subsidy payable to this Authority under Project 200-1 is \$58,300.00. This subsidy was reduced for the fiscal year beginning on October 1, 1952 and ending September 30, 1953 to \$50,078.70 by applying the operating surplus of the previous fiscal year in the amount of \$8,221.30 as provided on the Contract for Financial Assistance.

#### Project 200-2

Temporary Financing: This project was transferred to Management on January 1, 1953. The operating surplus of \$45,285.46 for the Initial Operating Period was distributed as follows:

Reduction of Development Costs	\$27,322 66
Operating Reserve	11,127 80
Insurance Reserve	6,835 00
	<u>\$45,285 46</u>

It was further noted that this project is still being financed with temporary notes as it is understood that the State Housing Board has been unable to obtain bids on permanent bonds at a rate less than 2 1/2%.

#### Project 200-3

Commonwealth Subsidy: The Springfield Housing Authority's Fiscal Agent has received, as provided in its Contract for Financial Assistance with the Commonwealth, its first subsidy payment in the amount of \$46,250.00, which represents 2 1/2% of the total development cost. The operating surplus for the first fiscal year of operations was \$4,673.43, which will probably be applied to reduce the subsidy payment in the second fiscal year.

#### General

Insurance Refund: It was noted that refunds were received on Comprehensive Liability and Property Damage insurance which was canceled by direction of the State Housing Board as follows:

<u>Project</u>	<u>Comprehensive Liability</u>	<u>Property Damage</u>
200-1	\$368 19	\$ 81 77
200-2	206 02	80 14
200-3	124 04	55 61
	<u>\$698 25</u>	<u>\$217 52</u>

Subsequently this insurance was replaced and the following shows the increase in the cost of it effective July 27, 1953:

<u>Project</u>	<u>Annual Rate on Canceled Policy</u>	<u>Annual Premium on New Policy</u>	<u>Number of Units</u>
200-1	\$151 33	\$515 96	200
200-2	149 82	338 80	196
200-3	103 66	306 97	136

It was further noted that the payment of the foregoing premiums have been withheld by the Authority pending an explanation of the increases from the Chairman of the State Housing Board.

under Permanent Financing totaled \$1,501.59. It was noted that the State Housing Board, under date of March 12, 1953, advised the Authority that this amount was to be applied toward reducing the Commonwealth's subsidy contribution for the third year under Permanent Financing, making the net contribution \$1,673.41. Subsequently, apparently because of the necessary additional expense involved in connecting this project with the Town of Bedford sewerage system, the State Housing Board approved the subsidy payment and advised the Authority to increase the Operating Reserve by the amount of the aforementioned operating surplus despite the fact that the maximum Operating Reserve has been reached. In this connection, attention is directed to the fact that Paragraph VII, Section 4 of State Housing Board, #129 states:

"When the balance in the Operating Reserve Account shall equal the maximum set forth in the Management Program no further credits shall be made to the Operating Reserve Account until such time as it may be depleted."

**Inspection of the Project:** During the course of this audit, a visit was made to the site of the project; it was observed that several buildings still are badly in need of exterior painting. In this connection the Executive Director indicated that it was planned to do this painting in 1953, but that it has not been approved by the State Housing Board and now it might possibly be done in 1954.

**Comprehensive General Liability Insurance:** It was noted that the insurance policies in effect for this project were canceled by direction of the State Housing Board. The policies which had been paid for at the rate of \$.756 per unit per year were subsequently replaced with other policies to cost at the rate of \$2.25 per unit per year.

#### MIDDLEBOROUGH HOUSING AUTHORITY

REPORT NO. 54-H-27

**Commonwealth Contribution:** It was noted that the Commonwealth Contribution for the third fiscal year under permanent financing amounted to \$4,626.20. The surplus of \$2,373.80 for the year ending December 31, 1952 was applied to reduce the Commonwealth's Contribution for the subsequent fiscal year.

**Accounts Payable Vouchers:** It was noted that accounts payable vouchers are not being used as required. According to the State Housing Board Accounting Manual the use of an accounts payable voucher is mandatory, and it is suggested that they be used forthwith.

**Tenants' Ledger:** The tenants' ledger as prescribed by the State Housing Board Accounting Manual is not being maintained. This folio is most important and should be incorporated with the records as soon as possible.

**Dwelling Rent Schedule - Account 3100:** The State Housing Board, in Letter of Instruction No. 12, directed that certain subsidiary accounts to Account No. 3100 be set up. These accounts should have been established for the quarter beginning July 1, 1953 and it is therefore recommended that this directive be forthwith complied with.

**Utilities:** The recommendation of the State Housing Board relative to the increase in the charges for utilities has not been properly applied. This matter was brought to the attention of the proper personnel and it is understood that the necessary adjustments will be made in the near future.

**Insurance:** A comprehensive liability insurance policy expiring on December 15, 1955 was canceled on July 27, 1953 by the State Housing Board, and a new policy with another company was substituted on the same date. The premium on the canceled policy for a three year term cost \$63.56, whereas the premium on the new policy cost \$52.41 for a term of one year. The amount of coverage on both policies was the same.

#### NANTUCKET HOUSING AUTHORITY

REPORT NO. 54-H-28

**Subsidy Payments:** A Subsidy totaling \$8,047.52 representing 10% of the total development costs of \$80,475.24, will ultimately be paid to the Town of Nantucket by the Commonwealth.

To date of audit, payments as shown by the records in the office of the Town Treasurer of Nantucket, were made as follows:



February 1952	\$1,609 50
February 1952	1,609 50
August 1952	1,609 50
September 1953	1,609 51
	<u>\$6,438 01</u>

**Transfer of Profit:** It was noted that the operating profit of \$2,284.60 for this project for the calendar year 1952 was turned over to the Town of Nantucket during 1953. It was further noted that the operations for the first nine months of the 1953 calendar year indicated a profit of \$1,603.61. It is understood that the annual profit for the entire year will be turned over to the Town of Nantucket after the close of the year.

**Rents:** The shelter rent amounting to \$42.00 per dwelling unit is based upon an average of local rents and not upon income or family status. Neither equipment nor utilities are provided by the Authority, each tenant pays for his own.

**Blanket Position Bond:** It was noted that due to a misunderstanding the Blanket Position Bond of this Authority was not renewed. It is understood that corrective action will be taken immediately to provide the proper Bond coverage.

**Deposits of Collections:** It was noted that cash on account of rent receipts is not being deposited until a considerable length of time has elapsed after collection. It is suggested that all such funds be deposited within a reasonable time after their receipt.

**Utilities:** It was noted that an expenditure was made for hot water heaters at this project which was not anticipated in the 1952 budget and resulted in the actual disbursements exceeding the budget estimates. It was noted that provision to replace eight of these heaters had been made in the 1953 budget.

#### REVERE HOUSING AUTHORITY

REPORT NO. 54-H-29

#### Temporary Projects

**Maintenance of Accounts:** It was noted that a trial balance of the ledger was not being taken each month. It was further noted that an entry in the month of April 1953 had not been posted, indicating that these accounts had not been reconciled at least since that date. It is, therefore, suggested that a complete trial balance should be taken and a statement prepared at the close of each month.

**Security Deposits:** In checking this account it was noted that there was in its bank account \$90.00 more than the control account balance. On checking, it was learned that refunds which had been made to former tenants had been paid from the Administration Fund.

The reason advanced for not paying the refunds from the proper account was that it was considered that it would affect the accrual of interest.

**Other Income:** This account indicated a balance on October 31, 1953 totaling \$310.90. On checking, it was learned that the items comprising this account should have been entered as follows:

1. An insurance policy had been canceled and a refund of \$290.40 received. This amount should have been credited to the expense account for Insurance and not to Other Income.
2. A rental charge to a tenant had been charged off against the Reserve for Vacancy and Collection Losses as uncollectible. It was subsequently paid by the former tenant. The correct procedure for handling this item would have been to bring back the amount previously charged off and credit it with the collection.

It was further noted that interest in the amount of \$18.62 had been credited to the Security Deposit Account. This amount was properly credited to Other Income while the current audit was in progress.

**Surplus:** The surplus for the 1952 year was computed as \$7,230.04 and was remitted to the City of Revere in February 1953. This surplus is not paid as an income item but as

"Payment in Lieu of Taxes" and is so classified on the records of the Authority.

### Chapter 200-1 - Temporary Financing

**Overpayment to Contractor:** As stated in the prior audit report, an overpayment had been made to the contractor for the first group of units constructed. The overpayment, which was in the amount of \$184.50, was the result of not including a credit from a change order. The books still show this amount because no further settlement has been made to the contractor from whom \$11,500.00 has been retained until final acceptance of the contract is made.

**Amortization of Note Premium:** A premium of \$141,580.75 was received on the issuance of the Sixth Series Notes which were issued in the amount of \$3,600,000.00. These notes were dated April 28, 1953 and are due January 26, 1954 at the rate of 6%. It was noted that the premium indicated is not being correctly distributed over the life of the notes. In this connection the amortization is being made on a monthly distribution of \$12,949.45 rather than \$15,848.59, a difference of \$2,899.14 a month. This matter was discussed with the architect's accountant who agreed that his computation was incorrect. An adjustment of \$14,785.60 was made as of October 31, 1953 to correct the account.

**Deposit of Premium Funds:** Attention is directed to the fact that the premium of \$141,580.75 received from the sale of notes under temporary financing had been segregated for deposit and investment. In this connection Treasury Notes in the amount of \$140,000.00 were purchased and the balance was left on deposit.

**Accounts Receivable and Payable - Development and Administration:** An analysis of these accounts indicated that they included several old items which appear as Accounts Receivables in the Administration Account and as Accounts Payable in the Development Account. These accounts should be transferred, the present Accounts Receivable and Accounts Payable should be liquidated and the cash position adjusted. The total amounts which were involved were \$853.68 and were brought to the attention of the Authority's accountant who made the necessary bookkeeping adjustments while the audit was in progress. The cash accounts will be adjusted at the time this accountant prepares his next statement when it is understood he will advise the Authority's accountant to draw the necessary check.

**Miscellaneous Income:** It was noted that \$239.50 of unearned premium on United States Treasury Bills had been incorrectly credited to this account. This credit was actually due to the Development Account and was adjusted while the audit was in progress.

It was also noted that interest earned from the Security Deposit Fund had not been credited to this account in the amount of \$75.10. This was brought to the attention of the accountant, who made the necessary adjustment while the audit was in progress.

**Loam Removal - Project 200-1 Extension:** The previous audit report commented that approximately twenty loads of loam had been taken from the site of this project and used on the Federal project. To date no settlement of this transaction has been effected. The matter was discussed with the Executive Director of the Authority, who submitted the following memorandum with reference to it:

December 1, 1953

"In connection with the item of Loam Removal - Project 200-1 extension, as appearing on Page 9 of the State Auditor's 1952 Report, the ----- Nurseries handled the landscaping work on both Project 200-1 extension and the Federal Project. Approximately 20 loads of loam were taken from Project 200-1 extension and used on the Federal Project. It was expected that Project 200-1 extension would be completed long before this date but we have had considerable difficulty in getting the ----- Company to return here to complete some rough grading before the ----- Nurseries can complete the seeding and planting.

"Arrangements had been made with the ----- Nurseries to either make a cash settlement for the 20 loads of loam, or arrangements would be made to have them do some work for us equal to the value of the loam.

"In order to hasten the completion of Project 200-1 extension a conference had been arranged at the State Housing Board for December 2nd of this year but this has been post-



poned a few days because of the inability of the Attorney for ----- Company to be present on that date. The payment of this 20 loads of loam will be one of the items that will be cleared at this conference."

General - Chapter 200-1 and Temporary Projects Expenses to National Association of Housing Organizations Convention: It was noted that two Members of this Authority and its Executive Director attended a Convention in Buffalo, New York of the National Association of Housing Organizations in October 1952. The travel expenses, etc., were handled by making an original advance in October 1952 of \$600.00 and paying the balance of \$90.00 in November. The total convention expenses were distributed as follows:

Chapter 200-1	\$345 00
Temporary Projects	172 50
Federal Projects	172 50
	<u>\$690 00</u>

Expense reports were submitted in November 1952 but were not actually recorded. Because of this the accounts in Project 200-1 did not show the proportion properly chargeable to it. The accounts indicated an Account Receivable of \$345.00 which should have been charged to Development Costs. The item was adjusted while the audit was in progress.

#### STONEHAM HOUSING AUTHORITY

REPORT NO. 54-H-30

##### Project 200-1

Investments: It was noted that \$15,000.00 which had been invested in U. S. Treasury Notes in June 1953 and which matured on September 10, 1953 were still on hand as of the date of the inception of this audit. It is urged that such matters be taken care of promptly so that the maximum amount of interest may be earned.

Tenants' Security Deposit Refunds: It was noted that the refunds of the Tenants' Security Deposits are still not being reflected on their respective ledger sheets. It is therefore again recommended that such entries be passed through these ledger accounts.

Comprehensive Public Liability Insurance Rates: It was noted that the insurance policies for these projects were canceled by direction of the State Housing Board. These policies which had been paid for at the rate of \$.756 per unit per year were subsequently replaced with other policies to cost at the respective rates of \$1.87 for Project 200-1, and \$2.25 for Project 200-2, per unit per year.

#### GARDNER HOUSING AUTHORITY

REPORT NO. 54-H-31

Permanent Financing: It was noted that the Commonwealth subsidy contribution for Project 200-2 for its second year of Permanent Financing was \$8,345.45 and was computed as follows:

2 1/2% of Total Costs	\$12,850 00
Reduction Reserve Applied	4,504 55
	<u>\$8,345 45</u>

This contribution was paid to the Second National Bank of Boston on or about June 15, 1953.

It was also noted that the Commonwealth subsidy contribution for Project 200-3 was \$9,100.00 for its first year under Permanent Financing and was paid to the Second National Bank of Boston, the fiscal agent, on the following dates:

March 1, 1953 - 1/4 of Contribution	\$2,275 00
September 1, 1953 - 3/4 of Contribution	6,825 00
2 1/2% of Total Costs	<u>\$9,100 00</u>

Accounts Payable - Development - Project 200-2: The records of this Authority indicate a balance in this category of \$3,144.24 as of the audit date. It was ascertained that only \$1,592.34 of that amount actually represented liabilities. The difference is supposed to be the anticipated cost of work not yet started.

Insurance: This Authority was formerly insured for Comprehensive Public Liability as follows on a three year basis:

	<u>Period</u>	<u>Units</u>	<u>Annual Premium</u>
Project 200-2	August 1, 1951 to August 1, 1954	41	\$31 02
Project 200-3	December 8, 1951 to December 8, 1954	26	19 67

This policy was canceled effective July 27, 1953 by direction of the State Housing Board and the premiums refunded were \$31.45 and \$26.90 respectively.

Subsequently new insurance for apparently the same coverage was written with another insurance company, as follows, on an annual basis:

	<u>Period</u>	<u>Units</u>	<u>Annual Premium</u>
Project 200-2	July 27, 1953 to July 27, 1954	41	\$76 76
Project 200-3	July 27, 1953 to July 27, 1954	26	53 90

In addition to the above cancellations, the policy covering Property Damage was also canceled effective July 27, 1953.

Contract for Installation of Storm Drain - Project 200-3: This Authority advertised for bids for installation of a storm drain at its Waterford Street Project. It was also learned that two interested contractors verbally declined to submit a bid because "too much hand labor was involved in the work". It was noted that the contract was given to the only bidder of record for \$4,523.00.

#### TAUNTON HOUSING AUTHORITY

REPORT NO. 54-H-32

Temporary Construction Projects - Sale of Buildings: It was noted that the buildings and equipment of this project were sold during the current audit period with the approval of the State Housing Board and the City of Taunton. However, inasmuch as the highest bidder refused to accept the buildings, they were disposed of to the second highest bidder and legal action has been started to recover damages. Because the original bids had been given to a Boston attorney, who is preparing the legal action, the copies of the bids were not examined in connection with this audit.

Project 200-1 - Architect's Fee: It was noted that a balance of \$192.55 due to the architect for work done in connection with the construction of this project is still unpaid pending disposition of bankruptcy proceedings against him.

Project 200-1 - Utilities: In an effort to reduce what appears to be excessive costs of heating at this project, a contract for \$6,874.00 was awarded on November 3, 1953 to revise the present system. It was also noted that the sum of \$49,000.00 had been allotted for this purpose.

Project 200-1 and Project 200-2 - Review of Income Limits: It was learned that the Authority is presently engaged in revising the occupants' income limits in order to make more families eligible. This action should reduce vacancy losses.

Project 200-1 and Project 200-2 - Rent Rolls: It was noted that the preparation of monthly Rent Rolls have been discontinued. These schedules have a purpose and it is recommended that they be reinstated.

Project 200-1 and Project 200-2 - Insurance (Property Damage): It was noted that property damage coverage on these projects which would have expired on December 1, 1954 was canceled by direction of the State Housing Board on July 27, 1953. According to the State Housing Board, this insurance was originally written to protect the Authority against liability for damage to tenants' personal property, etc., and inasmuch as claims of this nature have been negligible in amount there would be a resultant savings of the cost of this insurance, which it was estimated was 30¢ per unit.

Comprehensive Public Liability Insurance Rates: It was noted that insurance policies which were in effect for these projects were canceled by the State Housing Board,



effective as of July 27, 1953. These policies which had been paid for at the rate of \$.756 per unit per year were subsequently replaced with other policies to cost at the respective rates of \$4.35 for Project 200-1 and \$2.25 for Project 200-2, per unit per year.

#### ANDOVER HOUSING AUTHORITY

REPORT NO. 54-H-33

**Books Not Closed at End of Fiscal Year:** It was noted that the first fiscal year under permanent financing of this Authority ended on March 31, 1953, yet the income and expense accounts which should have been closed as of that date were still open on the date of audit. This matter was brought to the attention of the proper personnel and the necessary entries will be made in the near future.

**Duplication of Bonds Retired:** Although this Authority has completed only one year under permanent financing, it was noted that the balances in the Bonds Retired account and in the Development Cost Liquidation account totaled \$20,000.00 respectively. The Debt Service Schedule indicates, however, that only \$10,000.00 in bonds had been retired at the close of this first fiscal year. This matter was also presented to the proper personnel who will arrange for the necessary adjusting entry in the near future.

**Accounts Payable - Vouchers:** It was noted that the accounts payable vouchers now being used do not indicate the distribution of the expenses. It is suggested that these vouchers include this important information.

**Payment in Lieu of Taxes Due Town of Andover:** It was determined that on the audit date the Authority owed the Town of Andover \$1,026.40 as a "Payment in Lieu of Taxes" for the year ended December 31, 1952. It was learned that this payment will be made in the near future.

It is recommended, however, that such future payments be made more promptly.

**Comprehensive Public Liability Insurance:** It was noted that the Comprehensive Public Liability insurance in effect was canceled by direction of the State Housing Board as of July 27, 1953 and comparable coverage substituted. A comparison in the old and new rates follows:

	<u>Yearly Premium</u>
Canceled Policy	\$ 42 37
New Policy	144 72

#### LYNN HOUSING AUTHORITY

REPORT NO. 54-H-34

**General - Cash Count:** The count of cash on the opening day of the audit indicated a shortage of \$6.40 in the petty cash. There was also an overage of \$3.94 in the general cash account which is derived from rent collections. Upon inquiry it was determined that it has been the practice of the Authority's employees who collect rents to borrow from the petty cash fund for change purposes when the funds in the general cash drawer were inadequate, without making a record of this borrowing in the general cash drawer.

It is recommended that a voucher be made out for all withdrawals from petty cash.

**General - Invoices:** A few instances were noted where the Authority had neglected to take advantage of cash discounts. In one other instance it was also noted that the Authority had paid a higher price for paint than that which had been quoted by the vendor in his proposal. These overpayments were brought to the attention of the Authority's accountant and reimbursements were received when the audit was in progress.

**General - Board Members' Compensation:** It was noted that the computation used in establishing compensation for the board members had been based upon the gross rent rolls without any adjustment for move-outs. This matter was brought to the attention of the accountant and it is understood that the necessary adjustments will be effected when the next payment to the board members will be made.

**General - Office Time Records:** It was noted that adequate time records were not being maintained for office personnel. In the absence of such records leave data was not available. It is, therefore, recommended that such necessary time records for its office personnel be installed.

**General - Pay Roll:** An examination of the pay roll computations for overtime pay for maintenance personnel indicated minor variances between the respective time sheets and the weekly summary sheets. At present, there is no formal approval by the Superintendent of Maintenance of the hours worked. It is, therefore, recommended that he approve the weekly summary sheets showing regular and overtime hours worked.

It was also noted that the pay rates of certain employees had not been formally approved in the minutes of the board's meetings. It is suggested that these be recorded in the minutes together with the authorizations for employment and the respective rates of pay.

**General - Leave Pay:** It was noted that on the termination of the employment of the former Executive Director to accept an appointment as Director of the State Housing Board, he was paid \$420.00 for 21 days of accumulated vacation leave for the period July 1948 to February 28, 1953. This payment was prorated as follows:

State and City Projects	\$272 12
Federal Project 23-1	147 88
	<u>\$420 00</u>

In this connection it was noted that in the Management Program of the Chapter 200 Project, Paragraph III - Personnel Policies reads:

"..... No employee shall accrue more than 10 days of vacation leave without specific approval of the Authority, and, in the event of separation or termination of employment for any cause, any unused leave shall be compensated to the employee at his regularly established pay rate."

There was no record in the minutes of the meetings to indicate that this accrual of leave had ever been authorized by the Authority. It was learned, however, from the present Executive Director that this accrual of leave had been approved at a regular meeting, but apparently through oversight had not been recorded in the minutes of that meeting. It was further noted that there had been no leave records maintained and that the amount of the accumulated vacation leave had been based on a statement of the former Executive Director.

**General - Tenants' Security Deposits:** The reconciliations of these deposits indicated that accounts in Projects 200-1 and 200-4 included deposits of certain tenants who had vacated apartments still owing rent. This matter was brought to the attention of the accountant and it is understood that the necessary adjustments will be made.

**General - Income Review:** It was noted that the Authority had not conducted an annual review of the tenants' incomes for the purpose of rental adjustments since tenants had originally moved into the Chapter 200 projects. It is understood, however, that such a survey is now in process.

In this connection attention is directed to the fact that the newer tenants are paying rentals based on current income whereas the long-term occupants' rentals are computed on past earnings.

**General - Fuel Oil Contracts:** As of the date of audit the Authority had not solicited proposals for new fuel oil contracts for the Chapter 200 projects. The previous contracts for Project 200-1 and Project 200-3 had expired on May 31, 1953 and that for Project 200-4 on September 30, 1953. The Authority has continued to purchase its fuel oil requirements from the same supplier since termination of the aforementioned contracts.

The Executive Director indicated on questioning that this was an oversight on his part and that the Authority was now in the process of requesting proposals for its fuel oil requirements.

**General - Investments:** As of the date of audit, the cash balances in the Administration Funds of Projects 200-1 and 200-4 were \$32,096.28 and \$137,694.92 respectively. Since these balances appear to be in excess of the immediate cash requirements of these projects, it is suggested that consideration be given to investing it where interest may be earned.



**Project 200-1 - Paint Purchase:** In connection with the purchase of paint in the amount of \$244.92, it was noted that there was no bid proposal or evidence of price request other than that which applied to the ultimate vendor. It is suggested that the Authority make every effort to conform with Section (b) of the Purchasing Policies of the Management Program which states:

"All purchases and contracts involving a sum of not less than \$50.00 and not more than \$300.00 shall be made only after oral or telephone bids (confirmed in writing) have been obtained from at least three vendors or contractors."

**Project 200-1 - Security Deposit Fund:** It was noted that the security deposits of the tenants residing in this project were deposited in a separate fund whereas the deposits of the tenants in the other two Chapter 200 projects are carried under the Administration Fund. Since there is no apparent reason for this inconsistency in handling comparable funds, it is recommended that all such balances be handled through their respective Administration Fund cash accounts.

**Project 200-3 - Result of Operations:** The result of operations for the second fiscal year under Permanent Financing which ended on March 31, 1953 reflected a surplus of \$840.98 after the application of the Commonwealth Contribution of \$17,340.56 and the Contribution Reduction of \$1,109.44. This surplus of \$840.98 is to be used to reduce the Commonwealth Contribution for the fiscal year ending March 31, 1954.

**Project 200-3 - Black Top Work:** On a proposal requesting bids for black topping the project area only one bid was apparently received even though four contractors had been invited to bid. This bid in the amount of \$3,985.00 was subsequently approved by the State Housing Board.

It would seem that the Authority should have employed the medium of public advertising on work involving such an amount.

**Project 200-4 - Income:** In checking the sheets on which rent roll adjustments were recorded, it was noted that the Dwelling Rent Income account was understated by \$331.50 while the Tenants' Security Deposit account was overstated in a like amount because of errors in posting. This matter was brought to the attention of the accountant and the necessary adjustments were made during the course of the audit.

**Project 200-4 - Sundry Payments:** It was noted that the Authority requested the approval of the State Housing Board for the expenditure of \$1,952.04 for the installation of eight sump pumps. In this connection it was learned that the Authority did not solicit bids for this work nor did it seek prior approval of the State Housing Board apparently because of the emergency conditions which were created by heavy rains which flooded eight cellars. There was no record in the minutes of the meetings approving this work.

It was also noted that maintenance supplies in the amount of \$567.29 were apparently purchased without the prior approval of the State Housing Board. It was also learned that bids were not solicited for this purchase. It was explained by the Executive Director that these items had been on a previous list of materials approved for purchase by the State Housing Board. On checking, however, it was noted that the only such list on file did not include certain of the particular items referred to.

It would appear, however, that despite the fact that the purchase of comparable items had been approved some time previously, current approvals should have likewise been obtained.

**Project 200-4 - Budget:** An examination of the general ledger indicated that there had not been recorded therein the provisions for the Payment in Lieu of Taxes or the Operating Reserve as outlined in the approved budget. This matter was brought to the attention of the accountant and it is understood that the necessary adjustments will be effected.

**Project 200-4 - Landscaping:** This project was visited and it was noted that the grounds were in a poor condition. Upon inquiry, it was learned that the lawn and planting work which had not been specified in the original construction contract had never been accomplished. The Authority had intended to do this work under a separate contract, but the actual construction costs greatly exceeded that estimated with the result that the funds which had been borrowed under the terms of the Contract for Financial Assistance then in effect, were exhausted.

The Executive Director stated that an amended Contract for Financial Assistance which would have provided sufficient funds for the necessary work had been submitted to the Mayor of Lynn in June 1952 for his signature, but had not been signed. Without this approval, the current contract cannot be amended and it, therefore, appears that these grounds cannot be landscaped until this approval is obtained.

**Temporary Construction Projects:** Of the 113 units of this type which were originally operated by the Authority, there are now only eight under its control as of the date of audit. The other units have been turned over to the City as they became vacant.

**Comprehensive Public Liability Insurance:** It was noted that such insurance in effect for the Chapter 200 projects had been canceled by direction of the State Housing Board as of July 27, 1953.

Subsequent to that date this insurance was replaced with comparable coverage. It was noted, however, that the premium which had been paid for on the old contract at the rate of \$.756 per unit per year, was now being paid for as follows:

Project 200-1	\$4 18 Per unit per year
Project 200-3	5 65 Per unit per year
Project 200-4	5 14 Per unit per year

**Revolving Fund - Advances:** It was noted that the average monthly expenditures from this fund for the account of the Federal project exceeded the amount of the cash advance from that project. It was also noted that the Revolving Fund reflected an advance of \$1,118.00 from the Project 200-4 Development Fund even though there are no longer any expenditures chargeable to it.

This matter was brought to the attention of the accountant and it is understood that the necessary adjustments will be made.

#### MONTAGUE HOUSING AUTHORITY

REPORT NO. 54-H-35

**Debt Service Payments:** This Authority pays into its Debt Service Fund through its fiscal agent each year from rental income an amount which together with amounts received from other sources will equal that fiscal year's total debt requirements. This amount had been paid in ten monthly payments, and one twelfth of the total was paid on or about the fifteenth day of the month in each of the first nine months and the balance was paid on or about the fifteenth day of the tenth month. As of January 1, 1953, the start of the third fiscal year under Permanent Financing, this routine was changed and amount was paid in one payment and was forwarded to the fiscal agent on or before the eleventh month of the fiscal year. This payment which totaled \$3,157.15 was computed as follows:

Debt Service Requirement for Year		\$11,477 50
Less:		
Commonwealth Contribution	\$8,125 00	
2 1/2% of Premium	125 35	
Interest on Investment	70 00	8,320 35
Requirement for Year		<u>\$3,157 15</u>

**Commonwealth Contribution:** This Authority also received \$8,125.00 as its third annual Commonwealth Contribution and represents 2 1/2% of the development costs which is the maximum possible subsidy payment. This was necessary because of the deficit from operations during the second fiscal period in the amount of \$8,291.55.

**Tenants' Rents:** In this connection the previous audit stated:

"The examination of the rental charges to tenants revealed several instances wherein the rental charges were too low in relation to the tenants' reported incomes. It is suggested that more care be taken in the application of the graded rent schedule to the tenants' reported incomes."

It was noted that the Authority voted at its meeting of April 27, 1953 to make no rent changes, as working conditions in the area appeared unstable and the future income outlook did not seem at that time to be promising.



It was further noted, as a result of the verification of tenants' incomes in April of 1953, there appeared to be 9 tenants whose rental charges were low in relation to their reported incomes. It is, therefore, suggested that the computation of tenants' rental charges be made in accordance with the management resolution.

**Comprehensive Liability Insurance:** The Comprehensive Liability Insurance Policies for the 30 units at the Montague Housing Authority were canceled as of July 27, 1953 by direction of the State Housing Board and refunds were accordingly received on the following policies:

<u>Term</u>	<u>Policy No.</u>	<u>Units</u>	<u>Cost of</u>	
			<u>3 Year Premium</u>	<u>Refund</u>
January 10, 1953 to January 10, 1956	10365	12	\$27 24	\$22 32
April 13, 1953 to April 13, 1956	10389	18	40 86	36 94
			<u>\$68 10</u>	<u>\$59 26</u>

These policies were replaced with a one year policy to cost \$127.83, which represents an increase of from \$.756 to \$4.26 per unit or more than 460%. It was noted that the members of the Authority protested this arrangement and have requested an explanation from the Chairman of the State Housing Board. It is also mentioned that the invoice for the premium on the present policy had not yet been approved for payment by the Chairman of this Authority as of the date of this audit.

**Accounts Receivable:** It was noted that one tenant's rent in the amount of \$151.00 has been outstanding for more than one year. It is recommended that this account be charged off as uncollectible, with the approval of the Chairman of the State Housing Board, if it is determined that it is uncollectible.

#### NORTHAMPTON HOUSING AUTHORITY

REPORT NO. 54-H-36

**Revolving Fund:** The previous audit suggested that each project reimburse the Revolving Fund at the end of each month for their proportionate share of the disbursements made from that Fund. It is again recommended that the Revolving Fund be reimbursed at the close of each month by each project.

It was also noted that since its inception the balance indicated as on deposit from each project on the records of the Revolving Fund did not agree with the balance shown in the general ledger of each project.

**Discounts Lost - General:** The two previous audit reports indicated that the Authority had neglected to pass bills for payment in sufficient time to take advantage of discounts offered. During this audit period, a total of \$67.81 was lost because discount terms were not met. Of this amount \$46.72 represented a 10% penalty on water bills. It is again recommended that all bills be passed for payment promptly to allow the taking of discounts.

#### Veterans' Temporary Project

**Sale of Buildings:** This Authority as of the date of audit still controlled 2 buildings with 16 units of the Veterans' Temporary Project. It was noted that 4 buildings with 32 units have already been turned over to the City Property Committee, who have sold them at public auction. The buildings were subsequently demolished. It is understood that the remaining 16 units will be disposed of in the same manner as soon as each building becomes completely vacant.

**Security Deposit Fund:** Attention is directed to the fact that the Security Deposit Fund for this project has been discontinued and the necessary refunds were made to tenants. It is suggested that the small balance remaining in this Fund be credited to Miscellaneous Income.

**Surplus - Veterans' Temporary Project:** The accumulated surplus of this project on December 31, 1952 totaled \$8,953.43, and the Authority paid to the City of Northampton \$3,500.00. This amount is the only payment from surplus made to the City since the Authority assumed operations. It was learned that further payments are being withheld until

December 31, 1953, to be used in the event that there develops a final operating loss for the 1953 year. In this connection it was noted that from January 1, 1953 to October 31, 1953, this project showed an operating deficit of \$3,745.52. It was further noted, however, that this amount includes accruals of taxes and ground rent on buildings which have already been sold.

**Accounts Receivable - Tenants' Rents:** It was noted that tenants' rents totaling \$396.10 were charged off as uncollectible during the period under audit. These items were approved by the members of the Authority and this fact was recorded in the minutes of their meetings.

### Project 200-1

**Debt Service Payments:** This Authority pays into its Debt Service Fund through its fiscal agent each fiscal year an amount, which together with amounts received from other sources will equal that fiscal year's total debt requirements. This amount has previously been paid in ten monthly payments, one twelfth of the total being paid on or before the fifteenth day of each of the first nine months, and the balance being paid on or before the fifteenth day of the tenth month of the fiscal year.

However, commencing on January 1, 1953, the start of the third fiscal year, this amount will be paid in one payment which will be forwarded to the fiscal agent on the first day of the eleventh month of the fiscal year. The Authority, on November 16, 1953, paid to its fiscal agent the sum of \$9,912.09, which was computed as follows:

Bonds Maturing and Interest Payable January 1, 1954			\$32,907 50
Less:			
State Contribution	\$22,420 23		
Interest on Investment	210 00		
1/40 of Premium	365 18	22,995 41	
Project Requirement		<u>\$9,912 09</u>	

This Authority has also received, as provided in the Contract for Financial Assistance with the Commonwealth, its third annual subsidy payment in the amount of \$22,420.23. This amount is \$1,129.77 less than the maximum subsidy of 2 1/2% of the development costs and was effected by applying the second fiscal year's surplus to the reduction of the maximum subsidy.

**Bonds and Coupons Paid Memorandum Register:** It was noted that the Memorandum Register, which should list canceled bonds and coupons received from the fiscal agent as prescribed by the State Housing Board in its Letter of Instruction No. 14, dated July 21, 1953, has not been maintained. It is recommended that this register be established.

**Comprehensive Public Liability Insurance:** The Comprehensive Public Liability for Project 200-1 was reviewed and it was noted that on July 27, 1953 a policy covering 12 units from February 6, 1953 to February 6, 1956 at a cost of \$49.94 was canceled and a refund of \$42.14 was received by the Authority. It was also noted that this Authority was without coverage on 12 units from April 1, 1953 to July 27, 1953 and on 58 units from July 1, 1953 to July 27, 1953. The State Housing Board failed to renew these policies when they expired. A new policy covering the 80 units at a cost of \$218.26 per year was in force on July 27, 1953. This new policy represents an increase in the cost of Comprehensive Public Liability of from \$.85 per unit to \$2.73 per unit.

### FRAMINGHAM HOUSING AUTHORITY

REPORT NO. 54-H-37

**Title V and Project 372 - Transfer of Surplus:** Prior to this audit it had been the practice to transfer the surplus of these projects to the Town of Framingham at the end of the calendar year. During the 1953 year, this policy was changed and now the surplus is transferred at the end of each quarter. Transfers of this nature made to the Town of Framingham during this audit period were as follows:

	<u>Title V</u>	<u>Chapter 372</u>
Surplus - 1952 Calendar Year	\$6,491 24	\$16,697 87



## Surplus - 1953 Calendar Year:

1st Quarter	\$ 850 73	\$ 4,062 69
2nd Quarter	2,348 35	4,411 70
	<u>\$9,690 32</u>	<u>\$25,172 26</u>

In addition to the foregoing payments representing the surplus from operations in the third quarter in the amounts of \$3,105.59 and \$3,333.16 respectively, were effected on November 2, 1953.

Chapter 372 - Sale of Dwellings: Attention is directed to the fact that this project consisting of 20 buildings of 40 units is being made available for sale. The State Housing Board has advised this Authority to engage engineering services to lay out a plot plan of the dwellings and also an appraiser to value the plots when ready. It is further understood that the State Housing Board will also cause an appraisal to be made of this property before any sales are finally effected. These sales will be made under authority of Section 6, Paragraph (3) of Chapter 372 of the Acts of 1946, as amended.

Projects 200-1 and 200-2

Commonwealth's Contribution: The Commonwealth may make an annual subsidy contribution of not more than 2 1/2% of the final development costs. These contributions for the third year of operations under permanent financing will total \$25,547.03 for Project 200-1 and \$13,655.10 for Project 200-2. These amounts were computed as follows:

	<u>Project 200-1</u>	<u>Project 200-2</u>
2 1/2% of Development Costs	\$33,400 00	\$21,000 00
Deduct:		
Transfer of Second Year's Surplus for Reduction Reserve	<u>7,852 97</u>	<u>7,344 90</u>
	<u>\$25,547 03</u>	<u>\$13,655 10</u>

It is understood that the foregoing contributions will be paid to the First National Bank of Boston, the fiscal agent of this Authority, on or about December 15, 1953.

Pay Roll: This Authority has seven employees, including the Executive Director, but does not have an adequate pay roll system. In this connection particular reference is made to the lack of time records and individual employee accounts to indicate accumulation of sick leave and vacation time. This matter was discussed with the Executive Director who stated that this situation would be corrected as soon as possible.

Accounts Payable - Development - 200-1: The records of this project still reflect a total balance in this account of \$369.81 as of the date of audit. No liability however actually exists to substantiate this amount. It is understood that this amount represents the balance of what was originally an estimate, and therefore, it is suggested that it be adjusted.

Insurance: The following insurance policies on Comprehensive Public Liability were canceled effective July 27, 1953, by direction of the State Housing Board. These policies which had been paid for at an annual rate of \$.756 per unit per year were subsequently replaced with new policies for the same coverage which were billed at the rates of \$.23 per unit per year for Project 200-1 and \$.12 per unit per year for Project 200-2.

Tenants' Accounts Receivable: The tenants' accounts receivable outstanding as of the date of audit totaled \$1,930.34 for all projects as follows:

Temporary Construction Projects	\$ 469 44
Permanent Construction - 372	87 00
Project 200-1	787 63
Project 200-2	586 27
	<u>\$1,930 34</u>

Of this amount, \$1,544.50 was owed by former tenants and represents twelve individual accounts ranging from \$11.00 to \$375.00.

Although this total of outstanding accounts is considerably less than that noted at the time of the previous audit, it is nevertheless substantial and beyond what is considered normal bounds.

It is suggested that a firmer policy be applied toward the collection of all rents. It is further suggested that immediate steps be taken to enforce collection of the rents in arrears, and those proving uncollectible be charged off the record.

## PEABODY HOUSING AUTHORITY

REPORT NO. 54-H-38

Annual Report: Attention is directed to Section 26U of Chapter 121 of the General Laws, as amended, which provides that the housing authorities shall make an annual report in the month of January to certain State and Municipal officials. It was noted, however, that no reports for the calendar year 1951 and 1952 had yet been made by this Authority. It is, therefore, recommended that the necessary steps be taken to compile and submit these delinquent reports.

Petty Cash - 200-1: It was noted in certain instances that petty cash expenditures were not being properly approved. It is, therefore, suggested that regular form petty cash vouchers be used and that the signature of the person authorizing it be obtained.

Luncheons and Conferences: It was noted that \$420.19 had been disbursed for luncheons and conferences during the audit period and was charged to the following:

Project 200-1	\$ 97 37
Project 200-2	322 82
	<u>\$420 19</u>

The specific disbursements ranged from \$17.37 to \$143.32. The latter amount represented that expended for a collation upon the occasion of Project 200-2 being opened.

Contract Awards - Project 200-2: It was noted that Change Order No. 6 for \$1,161.00, Change Order No. 7 for \$37.63 and a credit of \$48.00 on Change Order No. 4 had not been posted or journalized in either the Contract Award or Incompleted Contract Accounts in the general ledgers, thereby understating them both in the amount of \$1,150.63. It is suggested that the necessary adjustment be made forthwith.

Dwelling Rent Schedule - Project 200-1: It was noted that only the actual rent and utilities charged to the respective tenants have been posted to this account. In this connection the Manual for Accounting Procedure issued by the State Housing Board states:

".... the credit balance of this account represents the rental income, including utilities, which would be received from the dwelling units if all units available for dwelling use were occupied."

Because of the present method of entering, the Dwelling Vacancy Loss is not properly reflected. It is, therefore, recommended that the records be maintained in accordance with the State Housing Board's directives.

Certificate of Purposes and Statement of Cash Requirements - State Housing Board Form #46 - Project 200-2: It was noted that there was not available the most recent amended form for the \$352,000.00 Contract for Financial Assistance. This was brought to the attention of the Executive Director who contacted the State Housing Board and on December 15, 1953, the necessary form was received.

Annual Verification of Tenants' Incomes: Under the provisions of Chapter 200 of the Acts of 1948, as amended, tenants' rentals are based on their respective incomes and/or family status. This income is originally verified prior to occupancy. Thereafter annual verification should be arranged in accordance with administrative orders of the Chairman of the State Housing Board, in order that there be compliance with the provisions of this statute with respect to the continued eligibility of tenants and to ascertain that they are paying proper rentals.

In this connection it was noted that no annual verification has been made since the occupancy of Project 200-1 on October 1, 1950. It was noted the minutes of the Authority's meetings had made several references to the possibility of such a verification, but to date no action has been taken.



Establishment of a Revolving Fund: It was noted that disbursements of expenses applicable to more than one project are made from the Administration Fund of Project 200-1. This is not in accordance with the terms of the Administration Fund Agreement. It is, therefore, suggested that a Revolving Fund be established and maintained for this purpose.

The following expenses should have been prorated between the projects monthly:

Pay Roll  
Office Rent  
Office Supplies  
Office Expenses  
Safe Deposit Box  
Insurance  
Rent Receipt Books

The prorating for the 1952 year was accomplished at one time on December 31, 1952.

Change Fund - Project 200-1: It was noted that a shortage of \$2.53 existed in this fund on the date of audit.

Discounts Lost - Project 200-1: It was noted in five instances that discounts had been lost because the invoices were not paid on time or because of oversight in not making the deduction. It is suggested that more care be exercised in these matters.

Comprehensive Public Liability: It was noted that prior to July 27, 1953, the cost of this insurance was 76¢ per unit per year, and since that date the cost has been \$2.24 per unit per year. This increase in cost was a direct result of an action suggested by the State Housing Board.

In this connection it was noted that the premium rebate received, because of the cancellation of these policies, on October 14, 1953, was not deposited until November 18, 1953.

Permanent Financing - Project 200-1: The books of the Authority reflected a surplus of \$6,015.88 for the second fiscal year under Permanent Financing, after taking into consideration the Commonwealth contribution of \$18,050.00. This surplus was credited as follows:

Transfer to Reduction of Annual Contribution Reserve	\$1,554 66
Transfer to Operating Reserve	4,461 22
	<u>\$6,015 88</u>

There was received a subsidy of \$16,495.34 for the third fiscal year under Permanent Financing, which represented the maximum subsidy of 2 1/2% of the certified development costs less an amount reserved for subsidy reduction from the surplus of the previous year.

Administration Fund Agreement - Project 200-2: It was noted that there had been no Administration Fund agreement since February 12, 1953, the date of the initial occupancy of the project, and as a result funds collected are not being deposited in a bank approved by the Chairman of the State Housing Board. This matter was brought to the attention of the Executive Director who has taken steps to correct this situation.

Purchase of Refrigerators - Project 200-2: It was noted that an overpayment had been made in connection with the purchase of refrigerators in the amount of \$15.36. This matter was brought to the attention of the Executive Director who was able to obtain a credit memo while the audit was in progress.

Security Deposits - Project 200-1: A trial balance of this account on October 31, 1953 indicated that there were three security deposits in excess of the number of units available. It was found on checking that two were in the names of former tenants who still owed rent, and the other in the name of a tenant who had vacated an apartment which required repairs.

It is recommended that the necessary adjusting entries be made to apply these deposits to the Tenants' Accounts Receivable account or the Repairs, Maintenance and Replacements account.

It was further noted that the cash in this account totaled \$1,775.00 while the corresponding general ledger control account balance was \$1,750.00. It is suggested that the necessary adjustment be made to bring the accounts into agreement.

**Tenants' Accounts Receivable - Project 200-1:** It was noted that the control account and the subsidiary accounts were not in reconciliation. It is suggested that the necessary adjusting entry be effected forthwith.

**Distribution of Operating Expenses:** In checking the distribution of operating expenses the following errors were noted:

Project 200-1:

1. A sewer bill paid in November 1952 had been charged to the Operating Service account. This item should have been charged to the Dwelling and Commercial Utilities account.
2. The cost of reading electric meters had been charged to Repairs, Maintenance and Replacements account. It should have been charged to the Dwelling and Commercial Utilities account per State Housing Board Accounting Manual.
3. An office electricity bill paid August 11, 1953 was charged to Operating Expenses. This should have been charged to the Dwelling and Commercial Utilities account.
4. A former tenant appears to still owe \$3.00 for utilities. This is in error due to an incorrect billing in May 1953. He does not owe this amount.

Project 200-2:

1. The cost of reading electric meters had been charged to Repairs, Maintenance and Replacements account. It should have been charged to the Dwelling and Commercial Utilities account per State Housing Board Accounting Manual.

**Utilities - Project 200-1:** It was noted during the period of audit there was collected from the tenants \$614.11 in excess of that which was paid for the utilities.

**AMESBURY HOUSING AUTHORITY**

**REPORT NO. 54-H-39**

**Accounts Receivable - Administration:** The Accounts Receivable - Administration account was analyzed and it was noted that it included the following items:

	Date of Original Entry	Amount
1) Payments for Accounting Services	July 1951	\$100 00
2) Fuel Oil Reimbursements to Vacating Tenants	January 1952)	
	November 1953)	38 00
3) Social Security Payment	April 1952	2 92
4) Error in Deposit	October 1952	20 00
		<u>\$160 92</u>

These items were explained as follows:

The first item represents a payment for accounting services which has been due from the original Development Fund since 1951. Inasmuch as the Development Fund is no longer existent, this item should be adjusted forthwith.

The second item represents fuel oil reimbursements to vacating tenants. It was indicated that the present policy of this Authority is not to charge new tenants with these amounts. Therefore, these reimbursements should have been charged directly to expense accounts.



The third item represents a Social Security Tax payment. It was noted that a corresponding item was set up in the Withholding Tax account, and this payment should have been charged to the latter account.

The last item represents an error in a deposit. This item should be corrected by depositing the correct amount of cash.

**Accounts Receivable - Development:** It was noted that a payment for Social Security Taxes in the amount of \$108.30 was made in January 1951. It was set up in the Accounts Receivable - Development account when it was learned that the several employees were not eligible for the benefits of this statute at that time. A refund of this amount should be obtained from the local Director of Internal Revenue.

It was noted that the Authority had filed a refund claim for this amount, and that while the audit was in progress a new claim was filed.

**Holdover on Board:** It was noted that the term of office of the board member appointed by the State Housing Board expired in July 1951. Since that time he has served as a holdover.

**Retirement of Bonds and Payment of Interest:** It was noted that \$4,000.00 of bonds and \$2,739.96 of interest that should have been retired on the records as of July 1, 1953 was still being carried on the books as of the date of audit. It is understood that the appropriate entries will be made to correct these accounts in the near future.

**Public Liability Insurance:** It was noted that the State Housing Board canceled the public liability insurance in effect as of July 27, 1953. The rate under the canceled policy was \$21.94 per year. The rate for the insurance which replaced it is \$61.39 per year.

#### METHUEN HOUSING AUTHORITY

REPORT NO. 54-H-40

**Surplus Transferred to Operating Reserve:** It was noted that \$1,513.37 of the 1953 surplus was transferred to Operating Reserve making a total of such transfers of \$17,700.00. The maximum amount that this reserve should attain is \$18,000.00 - this amount will undoubtedly be realized in the near future.

It was learned that there has been considerable trouble with oil fired hot water heaters on this project and the Authority will probably have to replace sixty-one units. Inasmuch as a different type heater fired by gas is contemplated an accurate estimate of the amount to be charged to this reserve is impossible to determine at this time.

**Comprehensive Public Liability Insurance:** Attention is directed to the fact that this insurance which was in effect was canceled by direction of the State Housing Board in July 1953.

Subsequently this insurance which cost only \$.756 per unit per year was replaced with insurance of an apparent comparable coverage which was billed at the rate of \$1.87 per unit per year.

#### WOBURN HOUSING AUTHORITY

REPORT NO. 54-H-41

##### Project 200-1

**Accounts Payable - Development:** This account, which reflected a balance of \$1,094.26, was the result of overestimating the accounts payable when the project entered into Permanent Financing. The records further indicate that there were no outstanding liabilities as of the date of audit, which is more than two years after the date of Permanent Financing, and therefore, there appears to be no reason for still carrying this liability. It is therefore recommended that this account be closed and the amount credited to prior years surplus.

**Accounts Receivable - Development:** The books reflected an accounts receivable of \$10.00 for a Security Deposit which had been erroneously refunded from the Development Fund. This latter account has been closed for more than two years and it was therefore suggested this item be charged off. The necessary adjustment was made while this audit was in progress.

**Insurance:** It was noted that the balance sheet includes an item of accrued insurance in the amount of \$8,075.00. This amount, which appears to be unusually large, was

traced and it was learned that an invoice for \$7,130.98 which had been submitted for fire insurance coverage from May 1, 1950 to May 1, 1955 had not been paid. This premium was based on second class fire doors. It had however been anticipated at that time that a change to first class doors would be made and a consequently lower rate obtained. More recently it was decided to allow the second class doors already installed to remain. It is understood that this invoice will probably be paid in the near future.

**Tenants' Security Deposits:** The balance in this account was \$74.50 in excess of what appeared to be the required amount. The account was analyzed and the difference comprised the following:

Refunds to Tenants	\$34 50
Applied to Repairs, Maintenance and Replacements	20 00
Applied to either Rents due or Legal Fees	20 00
	<u>\$74 50</u>

Several of the items had been on the books for extended periods and should be adjusted forthwith.

**Delinquent Rents:** The balance of Tenants' Accounts Receivable as of November 30, 1953 was \$1,182.00. Of this amount only \$194.00 was due from former tenants. The remainder of \$988.00 was due from tenants still residing in the project. This amount is unusually high and it is suggested that more forceful steps be taken toward the collection of these items.

**Commission on Washing Machines:** It was noted that this income is based on only 10% of the collections. This percentage appears to be very small in comparison with commissions received from these sources in connection with Housing projects in other cities. As a matter of fact, it was noted that one Authority receives a commission based on 50% of the actual collections.

**Working Capital:** The balance sheet indicates a balance in this account of \$698.46. Inasmuch as this account is inactive it is suggested it be transferred to the Operating Reserve account.

#### Project 200-2

**Tenants' Security Deposits:** It was noted that the balance of this account had not been reconciled by the accountant employed by the Authority for an extended period. As a result the records indicated that \$60.00 in excess of the actual deposits were held for the accounts of tenants. On analyzing, it was determined that this amount should be disposed of as follows:

Refunded to Vacated Tenants	\$20 00
Applied to Unpaid Rents	20 00
Applied to Repairs, Maintenance and Replacements	20 00
	<u>\$60 00</u>

It was suggested that the necessary adjustments be made forthwith.

#### Project 200-3

**Investments:** This premium fund indicated a balance of \$42,430.90 representing the purchase of \$42,000.00 United States Treasury Notes 2% due December 15, 1954. These notes were purchased at \$100.25 with accrued interest to the date of purchase of \$325.90. The notes should have been entered at actual cost and the interest as "Purchased Interest". The income from these notes would not show the actual income as the coupon collection would appear as gross income rather than net.

This matter was discussed with the accountant at the State Housing Board and he was in agreement with the foregoing suggestion. Subsequently the necessary adjustments were made to correct this situation.

**Development Costs:** It was noted that the Executive Director is to receive a weekly allowance of \$20.00 from this project. The preliminary work on the project had been started approximately one month prior to the audit and to the date of audit three payments had been made to the Executive Director. However, the records indicated payments of



only \$13.00 weekly for a total of \$39.00. These items actually included the allowance of \$20.00 indicated less \$7.00 which was being withheld for income taxes. The correct entry would have been to charge to Development Costs for \$20.00 each week and credit the Withholding Tax Reserve Account with \$7.00.

Necessary adjusting entries were effected when this matter was brought to the attention of the accountant.

**Architect's Fee:** It was noted that the architect for this project submitted a bill for services on July 29, 1953 in the amount of \$6,982.00. The bill was considered excessive by the State Housing Board and subsequently it was adjusted by mutual consent of all parties concerned to \$4,000.00 and was paid on that basis.

**Counsel for the Authority:** The attorney who is employed by the Authority on this project, while it is in the Development stage, is also Acting City Solicitor for the City of Woburn. In this connection attention is directed to the Contract for Financial Assistance, which states:

"No member, officer, agent, servant, or employee of the Authority or of the city or town in which the project is located, shall have any interest, direct or indirect, in any contract for property, materials, or services to be acquired by the Authority or furnished or used in connection with the project."

It is understood the foregoing may be waived with approval of the State Housing Board. It was noted that such waiver had been issued under date of November 19, 1952. This contract was not available as it had been forwarded to the State Housing Board for revision and approval.

To date of audit no legal fees had been paid.

#### General

**Oil Charges:** A complete check of all the invoices for oil used in the heating of the projects, for the period of this audit was made, and it was noted that 18 invoices included a charge of \$1.00 for having delivered split-loads - (part to one project - part to the other).

Such charges do not appear to be included in the oil contract and it was suggested that they not be assumed by the Authority.

In connection with this matter, it was learned that the oil contractor was allowing the Authority a credit of \$18.00 representing total charges of this nature to date.

**Debt Service Funds:** Recently a directive was issued by the State Housing Board to charge the accounts of the Authorities with all bonds and interest coupons as they became due. In this manner the accounts of the various Authorities are kept on a current basis and the fiscal agent becomes liable for all outstanding items, as deposits had been made for complete liquidation of items due.

However, due to the fact all coupons had not been presented for payment, the statements received from the fiscal agent were in excess of the amounts appearing on the balance sheet and therefore complete reconciliations could not be effected.

**Comprehensive Public Liability Insurance:** It was noted that this insurance formerly in effect was canceled as of July 27, 1953. Subsequently insurance of an apparently comparable type was purchased through the State Housing Board. This insurance, which in the previous basis cost \$.756 per unit per year was replaced with insurance costing as follows per unit per year:

Project 200-1	\$3 03
Project 200-2	3 78

FALL RIVER HOUSING AUTHORITY

REPORT NO. 54-H-42

**Temporary Construction Projects - Accounts Receivable Sundry:** It was again noted that \$26.67 of the balance reflected in this account represents amounts owed by former tenants because of overpayments by the Authority to them of security deposits and pre-paid rents. It is understood that the Authority has made unsuccessful efforts to recover these items.

**Temporary Construction Projects - Insurance Refunds:** There is due the Authority on account of canceled insurance policies approximately \$2,400.00. As the actual amount of these refunds due is unknown at the present time, they were not considered in establishing the cost of operations for the audit period.

**Temporary Construction Projects - Termination:** It was noted that the sale of this project was handled by the City of Fall River. The records pertaining to the sale were not examined in connection with this examination.

**Temporary Construction Projects - Surplus:** It was noted that the surplus from operations for the year ending December 31, 1952 totaled \$14,268.44, and to the date of audit it had not yet been transferred to the City of Fall River.

It was further noted that the deficit from operations for the first eleven months of the 1953 year amounted to \$2,681.40.

**Chapter 200 Projects - Utilities:** In accordance with a suggestion made in the previous audit report it was noted that a survey is now being made of the utility charges to determine whether adjustments are necessary.

**Project 200-1 - Delay in Final Payment:** Although this project has been completed for some time, the final payment to the general contractor is being withheld because of legal difficulties between him and one of the sub-contractors.

**Project 200-2 - Accounts Payable Sundry:** It was again noted that \$3.50 of the balance reflected in this account represented the security deposit of a person who is no longer a tenant of the project.

Since the Authority has exhausted all possible efforts in attempting to locate this individual, it is recommended that the State Housing Board be requested for authorization for the disposition of this balance which has been on the books for more than three years.

**Comprehensive Public Liability Insurance:** Attention is directed to the fact that this insurance in effect was canceled by direction of the State Housing Board in July 1953.

Subsequently, comparable insurance was purchased. It was noted, however, that this insurance was paid for at the annual rate of \$.756 per unit for all projects. The replacement cost was, however, as follows, per unit per year:

Project 200-1	\$2 06
Project 200-2	1 95
Project 200-3	2 17

#### MARBLEHEAD HOUSING AUTHORITY

REPORT NO. 54-H-43

#### General

**Comprehensive Public Liability Insurance Rates:** It was noted that the insurance policies in effect for this project were canceled. These policies, which had been paid for at the rate of \$.756 per unit per year, were subsequently replaced with other policies to cost at the rate of \$2.21 per unit per year at Project 200-1 and \$2.24 per unit per year at Project 200-2.

**Administration Fund Agreements:** It was noted that the Administration Fund Agreements had never been made with respect to the depositories for the following:

Project 200-1:  
Security Deposit and Savings Bank Account

Project 200-2:  
Administration Fund  
Security Deposit and Savings Bank Account

This matter was brought to the attention of the Executive Director who contacted the State Housing Board. It is understood that the necessary forms will be executed at the next regular meeting of the Authority.



Chapter 200-1 - Permanent Financing: The records of this project, after taking into consideration the Commonwealth's contribution of \$5,270.61, reflected a surplus of \$693.61 for the second fiscal year under Permanent Financing. This surplus was distributed as follows:

Transfer to Reduction of Annual  
Contribution Reserve

\$693 61

This Authority has also received a subsidy of \$5,406.39 for the third fiscal year under Permanent Financing. This amount represented the maximum subsidy of 2 1/2% of the certified development costs less an amount reserved for the subsidy reduction from the surplus of the prior year.

Chapter 200-2 - Permanent Financing: This project began operations under Permanent Financing on April 1, 1953. It will receive a subsidy of \$17,500.00 for the first fiscal year under Permanent Financing representing the maximum subsidy of 2 1/2% of the certified development costs.

Floor Condition - Project 200-2: It was learned that some of the apartments had sunken floors. In this connection copies of the following two letters were seen:

COPY

June 29, 1953

TO: Mr. Fred Dreyer  
State Housing Board, Boston, Mass.

FROM: Marblehead Housing Authority

SUBJECT: Sunken Slabs

In our Project 200-2 several slab floors have sunk again, some as much as 1 1/2".

These floors were brought up to the baseboards after sinking before, and have now sunken again. We will have to remedy this and want your office to know about it.

If this has happened in other projects, would you kindly advise us as to the best method of correcting same.

Sincerely,

Marblehead Housing Authority

/s/ Raymond C. Till  
RAYMOND C. TILL  
Exec. Dir.

RCT:eb

COPY

November 18, 1953

TO: State Housing Board

FROM: Marblehead Housing Authority

SUBJECT: Sunken Floor Slabs

On June 29, 1953, we wrote regarding sunken floor slabs in our Project 200-2. Up to this time we have had no answer as regards to this matter.

If you have any information as to the proper way to overcome this, will you kindly pass it along to us as well as instruction on caring for this outside of our budget.

The June letter was written to the attention of Mr. Fred Dreyer.

Sincerely,

Marblehead Housing Authority

/s/ Raymond C. Till  
RAYMOND C. TILL  
Exec. Dir.

RCT:eb

To date of audit no reply was received from the State Housing Board concerning this matter.

ARLINGTON HOUSING AUTHORITY

REPORT NO. 54-H-44

Project 200-1 and Project 200-2

General

General Ledgers: It was noted that the general ledger records are maintained on a quarterly basis. This is contrary to the usual procedure and should be corrected. Even though accruals are established quarterly, all other activities should be entered monthly.

Because of this arrangement the cash could not be reconciled to the general ledger accounts. At the present time the check books are reconciled monthly but are proved to the general ledger control accounts only at the end of each quarter.

Cash Reconciliations: Because the several cash accounts were being reconciled to the check books instead of the cash control accounts in the general ledgers, several differences were noted which had existed for extended periods.

These differences were as follows:

<u>Project</u>	<u>Account</u>	<u>Bank</u>	<u>Difference</u>
(a) 200-1	Administration	Arlington National Bank	(\$ 13 00)
(b) 200-2	Administration	Harvard Trust Company	5 00
(c) 200-2	Development	Harvard Trust Company	5 08
(d) 200-2	Real Estate	Harvard Trust Company	166 60
(e) 200-2	Premium	Second National Bank, Boston	6 00
			<u>\$169 68</u>

These differences were traced and identified as follows:

- (a) A check drawn April 7, 1953 in the amount of \$34.75 had been entered as \$21.75.
- (b) Item incorrectly charged off as a cash shortage although actually no shortage existed. An incorrect deposit had been reflected in the pass book, which was used in reconciliation instead of the bank statement and general ledger balance.
- (c) A check drawn November 5, 1952 in the amount of \$19.92 had been entered as \$25.00.
- (d) Income on Purchases and Sales of United States Treasury Bills and Notes had been recorded.
- (e) The premium of \$6.00 received on the sale of the 4th Series Notes in July 1953 had not been recorded.

Deposits of Cash Collections: It was noted that the collections of rentals which are made at the project office were not being deposited daily. It was also learned that occasionally sizeable amounts were held in the office for several days. In two instances amounts of \$1,482.50 and \$972.50 had been in the office for 7 days and in other instances \$1,042.50 and \$659.00 had been held 4 days before deposit. Other smaller amounts had been so held for period to 15 days.



It is suggested that possibly arrangements can be made so that these items might be handled through "night" deposits.

**Distribution of Pay Roll:** Attention is directed to the fact that the pay roll had not been properly distributed between the two projects. At the present time the entire pay roll is charged to one of the projects. Occasionally the other project is charged with the amount of a weekly pay roll, apparently in order to reach a basic distribution average.

However in checking the charges for the audit period it was noted that Project 200-2 had been charged \$509.86 that should have been charged to Project 200-1. This would have been the result had the distribution been made on a unit basis which would charge Project 200-1 with 72% and Project 200-2 with 28%.

It is further suggested that the pay roll be paid from one account and at the end of each month be distributed on the basis indicated.

**Potential Income:** Attention is directed to the fact that the method used to establish potential income was incorrect. Inasmuch as this computation is not made until the end of each quarter only net charges after move-outs, etc., are indicated without showing amounts for vacancy losses. While there were no appreciable losses of this nature during this audit period, the method should be changed to that prescribed in the State Housing Board Manual of Accounts.

In checking the potential income re Tenants' accounts, three errors were noted which would not have existed had the proper procedure been used. These errors involved a net increase of the Rental Income account of \$59.00 and extended over a period of nine months.

**Delinquency Charges:** A charge of fifty cents is made to tenants delinquent in their rental payments. It was noted, however, that these charges are not shown on the receipts issued to tenants nor are they shown on their accounts. These items are entered on a sheet maintained especially for this purpose and are deposited at the end of each month. They are credited to the Miscellaneous Income account.

**Cash from Stamp Machine:** In counting the cash funds on hand at the inception of this audit, an amount of \$19.56 was found which represented cash taken from a postage stamp machine belonging to a concessionaire. This machine became broken and was no longer useable. It was understood that several unsuccessful attempts had been made to locate its owner during the past six months. It is therefore suggested that the funds be deposited and credited to the Miscellaneous Income account. Should the rightful owner claim these funds at a later date, a refund could be made to him.

**General:** The adjustments necessary to bring the various accounts in reconciliation were made in the statements included in this report. Copies of all the entries necessary were given to the Executive Director, who also acts as accountant, in order to put through the supplementary entries to adjust the records of the Authority.

#### Chapter 200 - Project 200-1

**Investments:** It was noted that the balance sheet reflected a balance in the Administration Fund - Investment account of \$50,004.17 which comprised of securities of \$20,000.00 and bank balances as follows:

North Cambridge Co-Operative Bank	\$27,948 80
Arlington Five Cents Savings Bank	2,055 37
	<u>\$30,004 17</u>

A portion of the balance in the North Cambridge Co-Operative Bank was represented by 60 paid up shares with a value of \$12,000.00. The balance was cash on deposit.

The second item represented cash on deposit in the Arlington Five Cents Savings Bank.

It is suggested that these cash items be shown on the balance sheet in their true category rather than be included in the Investment account.

**Payment in Lieu of Taxes:** A directive was received from the State Housing Board dated December 16, 1953 which changed the basis of the payment in lieu of taxes. The change which was retroactive for the calendar year 1953 was for settlement on a unit basis rather than a percentage of income.

This change resulted in this Authority paying \$1,408.00 more to the Town of Arlington than it would have on the former basis.

This directive indicated further that this additional charge should be made to the Operating Reserve, the reason for such a charge being that the authorized budget had included the expense on a basis of income.

Cash Short and Uncollectible Tenants' Accounts: It is suggested that the cash shortage of \$14.70 which has accumulated over a period of three years and the apparent uncollectible tenants' accounts in the amount of \$55.53 be charged off the books, after the necessary approvals have been obtained.

#### Chapter 200 - Project 200-2

Petty Cash: It was noted that the petty cash account for this project was still being carried in the Development Fund. Inasmuch as this project has been in full tenancy and Management for some time, this cash fund should be transferred to the Administration Fund.

Administration Account - Reserves and Accruals: It was noted that although this project was still in a temporary status, the following accounts had been established:

Matured Interest and Principal	\$5,068 00
Operating Reserve	<u>3,000 00</u>
	<u>\$8,068 00</u>

Such accounts do not belong in the Administration Account and are not generally used until such time as a project goes into Permanent Financing.

It was further noted that the accrual to cover the interest payable had been entirely entered through the Development Account, therefore an accrual in the Administration Account was a duplicate item.

Because of the foregoing the surplus to date during the Initial Operating Period was understated by \$8,068.00.

Fourth Series Notes: It was noted that the Fourth Series Notes issued July 23, 1953 had not yet been brought onto the books of the Authority. It is suggested that the necessary entries be made forthwith.

Comprehensive Public Liability Insurance: Attention is directed to the fact that this insurance which was formerly in effect had been canceled by direction of the State Housing Board as of July 27, 1953. Subsequently comparable insurance was purchased. However it was noted that this insurance which had previously cost \$.756 per unit per year was billed on the new contract as follows:

Project 200-1 - \$3.19 per unit per year
Project 200-2 - 2.25 per unit per year

#### WELLESLEY HOUSING AUTHORITY

REPORT NO. 54-H-45

Accounts Payable - Temporary Construction: On December 31, 1952 accounts payable of \$395.00 were set up to cover the contemplated purchase of a snow plow and a filing cabinet. During the current audit period these items were purchased at a total cost of \$343.80. These purchases, however, were charged to current operating expenses. It is therefore recommended that the appropriate adjusting entries be made. The balance in the Accounts Payable should be transferred to the Surplus Account.

Prepaid Rent Account - Temporary Construction: It was noted that an account for Prepaid Rent in the amount of \$64.00 was established on December 31, 1952. This account should have been closed in January 1953. Inasmuch as it was still on the books on December 31, 1953, it is suggested that it be closed out.

Insurance Refund - Temporary Construction: It was noted that an insurance premium refund in the amount of \$57.40 was credited to the Tenants' Accounts Receivable account instead of to the Insurance account. It is recommended that the necessary adjusting entries be effected.



**Tenants' Security Deposits - Temporary Construction:** It was noted that cash receipts of \$40.00 which had been collected for Tenants' Security Deposits had been credited to Tenants' Accounts Receivable. It is recommended that the proper correcting entry be made.

**Tenants' Accounts Receivable - Temporary Construction:** It was noted that on the date of audit the Tenants' Accounts Receivable control account was out of reconciliation with the total of the detailed balances in the tenants' ledger in the amount of \$25.11. This difference was traced during the course of the audit and was caused by various errors.

It is recommended that at the close of each month a trial balance be taken of the detailed accounts in the tenants' ledger and that it be reconciled with the balance in the general ledger control account.

**Demolition of Buildings - Temporary Construction:** In accordance with a vote of the Town, the Authority is presently engaged in the demolition of its temporary construction project which it is estimated will be completed before May 23, 1954. To the date of audit 8 units had been sold to a wrecking company for \$854.50. Of the remaining 55 units 20 were vacant on December 31, 1953 in accordance with the policy established by the Authority.

**Investments - Administration Fund - Project 200-1:** It was noted that the Authority had purchased \$30,000.00 of United States Treasury Notes with excess funds in the Administration Fund. These investments were in the custody of a local bank on the date of audit. It was noted, however, that although these securities became due on December 1, 1953 no action had been taken toward the redemption of their interest or principal. In this connection the following amounts of interest are now overdue:

Interest Coupons Dated June 1, 1953	\$425 01
Interest Coupons Dated December 1, 1953	318 75
	<u>\$743 76</u>

This matter was discussed with proper personnel and it was understood that the necessary steps will be taken to redeem these notes and reinvest their proceeds in similar securities.

**Outstanding Check - Project 200-1:** A check for \$23.00 has been carried as outstanding since December 1952. It was learned that the check has been lost and replaced by another check after a stop payment order had been issued. Because the proper correcting entries were not then made the cash balance is understated and the Repairs, Maintenance and Replacements account is overstated by the amount of the check. It is recommended that the appropriate adjusting entries be made.

**Defective Soffits - Project 200-1:** After final payment had been made to the general contractor, the Authority experienced difficulties with the soffits of the dwellings because the plywood used in their construction with interior plywood rather than exterior plywood as stipulated in the contract specifications. The Executive Director in this connection stated that he had learned from firms dealing in plywood that the difference between the two types was in the glue used in their manufacture and that the glue used in the exterior plywood is specially treated to withstand the elements.

The Authority replaced this plywood at a cost determined at \$6,137.55. The Authority advised the general contractor of this matter and after several conferences were held among all interested parties the State Housing Board and this Authority requested the general contractor to make reimbursement for the cost of the replacement of the plywood. To date this amount has not yet been collected.

**Tenants' Accounts Receivable - General:** It was noted that the following Tenants' Accounts Receivable were outstanding for more than one year:

Temporary Construction	\$356 00
Project 200-1	141 95
	<u>\$497 95</u>

It is understood that the Authority will request permission of the State Housing Board to write these accounts off as uncollectible.

**Tenants' Security Deposits - Project 200-1:** A former tenant who vacated his apartment approximately one year ago owing rent of \$141.95 had a security deposit balance of \$25.00. This amount has never been applied to this delinquent rent item. It is recommended that such a transfer be effected.

**Comprehensive Public Liability Insurance:** It was noted that this insurance in effect was canceled by direction of the State Housing Board as of July 27, 1953.

Subsequently insurance of a comparable nature and amount was placed. Attention, however, is directed to the fact that this insurance which was formerly paid for at the rate of \$.756 per unit per year was billed under the new contract at the rate of \$.4.24 per unit per year.

## HAVERHILL HOUSING AUTHORITY

REPORT NO. 54-H-46

**Tenants' Security Deposits - General:** The previous audit report recommended that the Authority adopt a consistent policy with respect to security deposits. As of the date of this audit it was noted that only 22 of the tenants residing in Project 200-2 had made such deposits and that no deposits had been received from tenants living in Project 200-1.

It is again suggested that the Authority adopt a more consistent policy for these deposits.

**Contract Award - Project 200-1:** It was noted that the award of a contract of \$340.00 for the installation of a concrete oil filling chamber had not been recorded in the minutes as being approved by the Authority's members. It is suggested that all contract awards be so recorded.

**Operations - Project 200-1:** It was noted that the surplus from operations for the second fiscal year under Permanent Financing, after taking into consideration the maximum Commonwealth Contribution of \$12,475.00, was \$52.09.

**Income Review - Project 200-1:** It was noted that tenants' incomes had not been verified at the prescribed time. At a meeting which was held on October 20, 1953, the board members deemed it advisable to wait until early 1954 because there was a possibility of flat-rate rents then becoming effective.

**Insurance Payment - Project 200-2:** The previous audit report recommended that Project 200-1 reimburse Project 200-2 in the amount of \$32.76 for an erroneous insurance payment. As of the date of this audit this reimbursement had not been made. This matter was again brought to the attention of the Executive Director and it is understood that this matter will be taken care of in January 1954.

**Administration Fund - Project 200-2:** As of the date of audit the cash balance of the Administration Fund totaled \$29,494.44. Since there appears to be no need of a large cash balance in this fund, it is suggested that the advisability of investing a portion of this balance be considered.

**Accounts Payable - Project 200-2:** It was noted that a payment of \$1,893.80 which should have been charged to the Accounts Payable - Administration account had been erroneously charged to Accounts Payable - Development. This matter was brought to the attention of the Executive Director and the necessary adjustment was effected.

**Operations - Project 200-2:** The surplus from operations for the first fiscal year under Permanent Financing, after taking into consideration the maximum Commonwealth Contribution of \$20,225.00, totaled \$2,428.61.

**Comprehensive Public Liability Insurance:** It was noted that this insurance in effect was canceled by direction of the State Housing Board as of July 27, 1953.

Subsequently insurance of a comparable nature and amount was placed with another insurance company. However, this insurance which formerly cost \$.756 per unit per year, was billed under the new contract as follows:

Project 200-1  
Project 200-2

\$3.69 per unit per year  
1.87 per unit per year



## LEOMINSTER HOUSING AUTHORITY

REPORT NO. 54-H-47

Commonwealth Contribution: It was learned that the Commonwealth's subsidy contribution for the third year under permanent financing will be \$16,070.34. This amount will be paid to the National Shawmut Bank of Boston, the fiscal agent of this Authority, on or about June 15, 1954. This amount was established as follows:

2 1/2% of Development Cost	\$17,575 00
Reduction Reserve (Surplus)	1,504 66
Contribution for Third Year	<u>\$16,070 34</u>

Refunds - Rents and Security Deposits: It was noted that in two instances rent refunds were made from income cash in the office, thus reducing the deposit of that particular day. This practice is questioned and it is advised that checks be issued whenever rent refunds are made.

In addition to the foregoing, security deposit refunds have also been made from available income cash. Inasmuch as the Security Deposit Account is kept in a Savings Account, it is suggested that these refunds be made by issuing checks from the Administration Fund, with subsequent reimbursement at periodic instances from the Security Deposit Fund.

Change Fund: During the current audit period a change fund was established. In at least one instance a refund of a security deposit was made from this fund. It is recommended that this fund be used for the purpose originally intended.

Insurance: This Authority was formerly insured for Comprehensive Public Liability as follows, on a three-year basis:

	<u>Period</u>	<u>Units</u>	<u>Annual Premium</u>
Project 200-1	August 1, 1950 to August 1, 1953	63	\$17 83
	August 26, 1950 to August 26, 1953	10	7 57

This policy was canceled effective July 27, 1953 by direction of the State Housing Board and the premiums refunded were \$.25 and \$.62 respectively.

Subsequently new insurance for apparently the same coverage was written with another insurance company, as follows, on an annual basis:

	<u>Period</u>	<u>Units</u>	<u>Annual Premium</u>
Project 200-1	July 27, 1953 to July 27, 1954	73	\$142 25

Policies covering Property Damage were also canceled as of July 27, 1953.

Low Bidder on Painting of Dwelling Units Rejected: It was noted on bids for painting of 12 buildings which were opened on September 25, 1953, that the low bidder was an out-of-town contractor while the second lowest bidder was a local contractor. The Authority voted to recommend to the State Housing Board that the contract be awarded to the local contractor.

The State Housing Board replied in a letter dated October 1, 1953, as follows:

COPY

## THE STATE HOUSING BOARD

October 1, 1953

Beatrice W. McGuire, Exec. Dir.  
Leominster Housing Authority  
City Hall  
Leominster, Mass.

Dear Mrs. McGuire:

Re: Leominster 200-1

We acknowledge receipt of your letter dated September 25, 1953 together with tabulation of bids received for painting the exterior of three clapboard houses at the designated project.

This office does not concur in the vote of your Authority to award this contract to the second low bidder, since no evidence has been presented which would indicate that the low bidder, ----- Company is incapable of completing the required work, in accordance with specifications.

This Board would have no objection to your Authority entering into a contract with the low bidder, ----- Company for the required painting work at a price of \$1,287.

Three copies of the executed contract, with performance bond, and insurance coverage certificate should be submitted to this office for the required approval.

Very truly yours,

HARLAND A. McPHETRES  
Director

Subsequent to the receipt of this letter the Authority voted to reject all bids giving as a reason the lateness of the season and indicated that it would call for new bids in the spring.

**Accounts Payable - Development:** The prior report indicated that accounts payable accruing from the development period were still open on the books and were contingent upon the Authority building a fence at the southern boundary of the project.

In this connection it was noted that a chain link fence was constructed during the audit period at the southern boundary of the project, liquidating the accounts payable.

**Miscellaneous Income:** The prior audit report commented that \$80.10 was on hand, having accumulated for miscellaneous sources, i.e. broken windows, key and cleaning of apartments. It was noted that this money has been deposited in the bank account.

#### WINTHROP HOUSING AUTHORITY

REPORT NO. 54-H-48

**Cash Count:** It was noted that an overage of \$49.00 existed in the cash account on the date of audit. It was determined that \$48.00 of it was being held by the Authority's attorney.

**Temporary Projects:** It was noted that the cash overage of \$10.00 commented on in the previous audit report has been deposited. It was, however, erroneously posted to Accounts Receivable - Sundry rather than to Accounts Payable - Sundry. This was adjusted while the audit was in progress.

**Project 200-1 - Architect's Fee:** It was noted in the previous audit report that an overpayment to the architect totaling \$4,050.28 had developed and it was suggested that the Authority take steps to recover it. To date, however, no definite action has been taken on this matter and the item remains unreimbursed.

**Project 200-1 - Water Seepage:** The previous audit report commented on the problems of the Authority with respect to certain water seepage. To date, this matter has not been entirely corrected.

**Project 200-1 - Painting:** The exteriors of these houses were inspected. It was noted that certain houses appear to be badly in need of painting.

**General - Books of Account:** This examination indicated again many weaknesses in the manner in which its accounts are maintained. It is, therefore, suggested that a field accountant of the State Housing Board visit this Authority for the purpose of furnishing instructions and assistance to the bookkeeping personnel.

**Comprehensive Public Liability Insurance:** Attention is directed to the fact that this insurance which was in effect was canceled by direction of the State Housing Board in July 1953.

Subsequently comparable insurance was purchased. However, this insurance which formerly cost \$.756 per unit per year, now is billed at the new rate of \$2.92 per unit per year.



## WATERTOWN HOUSING AUTHORITY

REPORT NO. 54-H-49

**Project 200-1 - Final Payment to Contractor:** Although this project was completed on November 15, 1950, the final payment to the contractor had not been made because certain items of construction were in dispute between the Authority and the contractor. These items had been the subject matter of various meetings of the contractor, the Authority and the State Housing Board for some time.

On December 7, 1953 the Authority voted to approve Change Order #30 in the amount of \$11,557.05 covering the final payment and settlement of the contract between the Authority and the contractor. The Certificate of Completion which included the amount of the final payment as outlined above was approved by the Chairman of the State Housing Board on January 5, 1954, and the final payment was made as of the same date.

**Project 200-1 - Accounts Receivable - Contractor:** The balance sheet of the Administration Account as of the date of audit includes an Accounts Receivable - Contractor account in the amount of \$10,809.57 which represents charges to the contractor's account for work done by the employees of the Authority. This account was subsequently offset by counter claims of the contractor against the Authority in arriving at the final settlement on January 5, 1954, and the aforementioned \$10,809.57 was charged to the development costs.

**Project 200-1 - Cash Shortage:** It was noted that \$25.00 which had been charged to the General Expense account represented a cash shortage in the deposit of September 18, 1953. In this connection it was determined that no rent receipt had been prepared for a tenant's check in the amount of \$25.00. This check was subsequently deposited with other items in an amount equal to duplicate rent receipts attached to the deposit slip.

It was further noted that the Authority's cashier was not balancing the cash at regular intervals. It is therefore suggested that the income cash and the Change Fund be reconciled frequently on some periodic basis.

**Project 200-1 - Average Rent:** It was noted that the average shelter rent charged to the tenants residing in this project amounted to \$45.88 as compared with the average rent of \$34.41 required to be maintained under the Management Program.

**Project 200-2 - Final Payment to Contractor:** It was noted that Periodical Estimate #18 covering the period from March 2, 1953 to June 26, 1953 requesting payment of a final balance of \$55,558.67 was submitted by the contractor but was not paid by the Authority because of exceptions taken to the construction of the project and claims against the contractor.

At present all the papers concerning this matter are at the State Housing Board for purposes of arbitration in order that the Certificate of Completion might be signed. It is understood that liens and claims against the contractor in the amount of \$34,594.93 have been filed with the Authority and that the Authority itself claims credits under the contract totaling \$20,575.72. The contractor, however, has claimed an additional \$5,416.81 from the Authority for additions to the contract.

**Project 200-2 - Fuel Oil Purchases:** The following proposals were received for furnishing #2 fuel oil to this project:

<u>Bidder</u>	<u>Delivered Price</u>
#1	\$ .1049
2	.1060
3	.1093
4	.1145
5	.1145

As of the date of audit the Authority is purchasing its fuel oil requirements from the second lowest bidder. On July 28, 1953 the State Housing Board recommended the award to the lowest bidder, but the Authority requested that the concern which was furnishing fuel oil for Project 200-1 as the result of competitive bidding, withdraw its bid so that the fuel oil would be purchased from the second lowest bidder.

There was no evidence in the Authority's files to indicate that a written contract had been entered into with this second lowest bidder, or that this action had been approved by the State Housing Board.

**Project 200-2 - Rentals:** It was noted that many of the rents charged to tenants residing in this project were not based upon the percentages of income according to family size as set up in the Management Program approved by the State Housing Board. In its effort to maintain the average rent which is predetermined in order to insure the financial stability of the project, the Authority had charged all tenants at least this average rent even though incomes warranted paying a smaller rental.

After its initial tenant review the State Housing Board on March 4, 1953 called the Authority's attention to certain situations and adjustments to be made in the rent roll and advised the Authority to conduct a complete tenant review in order to establish proper rentals. As of the date of audit these adjustments had not been made because the Authority feels that the financial stability of the project might be impaired by any change.

**Chapter 372 - Remodeled Units:** The previous audit report commented upon the fact that this project was not paying its proper share of the central office expenses. Since this situation still prevails, it is again suggested that this project bear its share of their expenses.

**General - Budgets:** The preliminary operating budgets for the Chapter 200 projects provide for the setting up of an Operating Reserve and the accruing of Payment in Lieu of Taxes. In this connection it was noted that the Authority had neglected to set up these accounts in its records. It is recommended that they be set up.

**General - Board Members' Compensation:** It was noted that the monthly compensation payments to the members of the Authority were not in accordance with a schedule approved at a meeting held on December 16, 1952. It is suggested that the current schedule of payments be formally approved.

It was further noted that no annual adjustment of the payments had been made in order to conform to the 1% of the net shelter rent collected which the State Housing Board has allowed for such compensation. This matter was brought to the attention of the bookkeeper and it is understood that an adjustment will be made at the time of the next payment.

**General - Rentals:** It was noted that this Authority does not deduct permissive deductions such as union dues, Social Security taxes or retirement deductions, which are mandatory by law, from the tenants' gross incomes before applying the proper percentage in order to determine the rental of the dwelling unit.

**General - Contracts:** During the course of the examination of bids received on proposed contracts, it was noted that certain proposals other than those of the successful bidders were not available for examination. Since the Authority must list bid prices when requesting the approval of the State Housing Board for the contract award, it is readily apparent that bid proposals should be carefully filed. It is, therefore, suggested that the Authority exercise greater care in the filing of all such proposals.

**General - Journal Entries:** The analysis of the Tenants' Accounts Receivable control accounts indicated an unusual number of postings to these accounts based on journal entries. The examination of the journal vouchers further indicated that it had been the practice of the bookkeeper to record move-ins and move-outs during the month and sundry charges on journal vouchers.

In order to eliminate this unnecessary number of journal entries, it is suggested that the items referred to above be reflected on the rent rolls. In this manner they will be recorded in the control accounts on the posting of one monthly summary journal voucher.

**Comprehensive Public Liability Insurance:** It was noted that this insurance in effect was canceled by direction of the State Housing Board as of July 27, 1953.

Subsequently insurance of a comparable nature and amount was placed with another insurance company. However, this insurance which formerly cost \$.756 per unit per year was billed under the new contract as follows:

Project 200-1  
Project 200-2

\$4 01 Per Unit Per Year  
7 07 Per Unit Per Year



## GREENFIELD HOUSING AUTHORITY

REPORT NO. 54-H-50

Project 200-1

**Debt Service Payments:** The Greenfield Housing Authority pays into its Debt Service Fund through its fiscal agent each year from rental income an amount, which together with amounts received from other sources, will equal that fiscal year's total debt requirements. For the first two fiscal years this amount was paid in ten monthly payments, one twelfth of the total being paid on or before the fifteenth day of the month in each of the first nine months and the balance being paid on or before the fifteenth day of the tenth month of the fiscal year. However, in 1953, the third fiscal year under Permanent Financing, this amount was paid at one time and it was forwarded to the fiscal agent on the first day of the eleventh month of that fiscal year. In this connection the Authority, on November 2, 1953, paid to its fiscal agent the sum of \$7,009.60, which had been computed as follows:

Bonds Maturing and Interest Payable January 1, 1954		\$27,545 00
Less:		
State Contribution	\$20,050 00	
Interest on Investment	175 00	
1/40 of Premium	310 40	20,535 40
		<u>\$7,009 60</u>

This Authority has also received, as provided in its Contract for Financial Assistance with the Commonwealth, the third annual subsidy payment in the amount of \$20,050.00. This amount is the maximum subsidy of 2 1/2% of the Development Costs of the project. This maximum was actually necessary because of a deficit from operations of \$4,462.23 during the second fiscal year. This amount was charged to the Operating Reserve account.

**Bonds and Coupons Paid Memorandum Register:** It was noted that this Register, which should list all canceled bonds and coupons received from the fiscal agent as prescribed by the State Housing Board in its letter of Instruction No. 14 dated July 21, 1953, was not so functioning. It is recommended that such a register be installed and put to use.

**Payment in Lieu of Taxes:** This Authority had accrued \$1,593.06 for Payment in Lieu of Taxes for 1953 to the Town of Greenfield. On December 16, 1953 a letter from the Chairman of the State Housing Board changed the method of computing these taxes and the town will actually receive \$2,592.00 as a Payment in Lieu of Taxes. It is understood that the Authority will charge this increase of \$998.94 to the Operating Reserve account.

**Interest on Savings Deposits:** The previous audit report suggested that interest on savings deposits be entered on the books of the Authority. It was noted that such interest is now being so entered in conformance with this suggestion.

**Rent Receipts:** It was noted that several rent receipts had been voided during the period under audit. It is suggested that all such voided rent receipts be attached to the duplicate copies in the receipt books where they may be available for use in connection with subsequent audits.

**Purchasing Policy:** The Management Program of this Authority, as approved by the State Housing Board and its members, states in part, as follows:

"All purchases and contracts involving the sum of not less than \$50.00 and not more than \$300.00 shall be made only after oral or telephone bids (confirmed in writing) have been obtained from at least three vendors or contractors."

In this connection, it was noted that this section of the Management Program is not strictly respected. It is, therefore, recommended that henceforth the purchasing policies of this Authority be maintained in conformance with the aforementioned excerpt.

Housing Authority Law: The previous audit stated in this connection:

"Attention is directed to Housing Authority Law, Section 26-O of Chapter 121 of the Tercentenary Edition of the General Laws, as amended, which reads in part as follows:

'No member, agent or employee of a housing authority shall, directly or indirectly, have any financial interest in any property, to be included in, or any contract for property or materials to be furnished or used in connection with, any project of such housing authority.'

"In this connection it was noted that an employee of the Authority entered into and completed a contract with the Authority while still an employee of the Authority and that at various times during the period under audit this same employee sold merchandise to the Authority for use in the maintenance of the project."

With respect to the foregoing, it was again noted that an employee of this Authority sold merchandise to the Authority for use in the maintenance of the project.

Tenants' Selection: In reviewing the tenants' selection files, the following was noted:

1. Leases do not indicate the current rental charges.
2. Insufficient data on family income and dependents was available making it difficult to check rental charges.

It is recommended that the tenants' selection files be revised to include data to support the current rental charges paid by the various tenants.

#### Chapter 372

Accounts Receivable - Tenants' Rents: It was noted that tenants' rents in the amount of \$125.00 had been charged off as uncollectible during the period under audit. This item, however, had not been approved by the members of the Authority and recorded in the minutes of their meetings. It is recommended that all such accounts charged off as uncollectible be so recorded.

#### MEDFORD HOUSING AUTHORITY

REPORT NO. 54-H-51

Revolving Fund: It was noted that the basis of prorating expenses applicable to the various projects was charged as follows:

	<u>Prior to November 1, 1953</u>	<u>After November 1, 1953</u>
Temporary Construction Project	31%	33 1/3%
15-1 - Federal	23%	33 1/3%
Chapter 200-1	23%	33 1/3%
Chapter 200-2	23%	-
	<u>100%</u>	<u>100%</u>

This charge was effected because all work on Project 200-2 which is in the planning stage ceased as of that date.

Temporary Construction Project - Remodeling: It was noted that all ten apartments in this project were vacant as of November 23, 1953. The accounts of this project were closed as of December 31, 1953 and the surplus will be turned over to the City of Medford as well as the Brooks House. It was noted that three tenants' accounts receivable were charged off as uncollectible but it is understood that the Authority will continue its endeavors to collect them.

Temporary Construction Project - Accounts Payable: It was noted that there was an accounts payable balance of \$97.38 which had been open on the books since 1951. This item stems from an overestimate when this account was established. It is suggested that this account be adjusted forthwith.



Temporary Construction Project - Tenants' Accounts Receivable: A trial balance of this account as of the date of audit indicated that present and former tenants owe rents totaling \$958.81, comprising \$76.38 due from present tenants and \$882.43 from former tenants. These balances were analyzed as follows:

Tenant	Rent	R. M. and R.	Legal	Moving, Etc.	Total
A	\$ 30 78	\$ 2 37	\$ 7 80	-	\$ 40 95
B	-	3 95	-	-	3 95
C	190 50	-	74 26	\$100 00	364 76
D	-	2 00	123 20	-	125 20
E	-	-	13 60	-	13 60
F	60 70	19 15	57 60	100 00	237 45
	<u>\$281 98</u>	<u>\$27 47</u>	<u>\$276 46</u>	<u>\$200 00</u>	<u>\$785 91</u>

It is recommended that steps be taken to charge off the foregoing if it is determined that the accounts cannot be collected.

Temporary Construction Project - Tenants' Security Deposits: A trial balance of this account on December 31, 1953 indicated that there were five security deposits in excess of units available for renting. It was noted that four of these deposits were collected from former tenants who still owed rent balances. The fifth deposit is owed to a tenant and should be refunded forthwith.

Project 200-1 - Tenants' Accounts Receivable: A trial balance of this account as of the date of audit indicated that present and former tenants owe rents totaling \$686.20 comprising \$75.70 due from present tenants and \$610.50 from former tenants. These accounts were analyzed as follows:

Tenant	Rent	Utility	Legal	Moving, Etc.	Total
A	\$113 35	\$ .14	\$57 60	\$75 49	\$246 58
B	21 24	-	-	-	21 24
	<u>\$134 59</u>	<u>\$ .14</u>	<u>\$57 60</u>	<u>\$75 49</u>	<u>\$267 82</u>

It is recommended that steps be taken to write off the foregoing if it is definitely established that further efforts to collect them will be useless.

Project 200-1 - Tenants' Security Deposits: It was noted that two security deposits belonging to former tenants who still owed rent balances were still on hand. It is recommended that these items be transferred to the proper account as soon as possible.

Project 200-1 - Contract Awards: It was noted that the following contracts were not awarded to the lowest bidders of record:

1. 15 gallons of interior flat white paint - awarded to highest bidder because other four companies did not bid on the specification brand or equal type of paint. The price differential between the lowest bidder and the contractor was \$1.00 per gallon.
2. 60 gallons of interior gloss enamel - awarded to third lowest bidder because other four companies did not bid on the specification brand or equal type of paint. The price differential between the lowest bidder and the contractor was \$.25 per gallon.
3. A contract for the exterior painting of 31 buildings was awarded to second lowest bidder because the lowest bidder did not file a bid security with his bid and was therefore considered not to be properly qualified. The difference between these two bids was \$1,175.00. In this connection it was noted that the lowest bidder was requested to submit this document but he failed to do so.

Temporary Construction Project: It was noted that all tenants of this project have been given notice to vacate the premises no later than June 30, 1954 because the physical condition of the buildings do not warrant continued occupancy under safe and sanitary conditions.

**Project 200-1 - Canceled Bond Register:** It was learned that the Executive Director advised the private accountant on July 23, 1953 of the letter of Instruction Number 14 from the State Housing Board dated July 21, 1953, the subject of which was canceled bond register. As of our audit date no such register had been made.

**Project 200-1 - Incorrect Posting:** It was noted that account 4400 - Repairs, Maintenance and Replacements was overstated by \$895.20 and that account 4300 - Dwelling and Commercial Utilities was understated in a comparable amount because of an incorrect posting of the electric bill dated November 18, 1953. It is advised that this matter be adjusted as soon as possible.

**Project 200-2 - Private Accountant:** It was noted that a private accountant received \$37.50 each month for taking care of the accounts of this project which was only in the planning stage with an estimated number of 150 units to October 31, 1953. However, the Federal project which consisted of 150 units and which was actually in final construction paid only \$25.00 a month for comparable services.

**Project 200-2 - Accounts Receivable:** It was noted that an accounts receivable due from Project 200-1 in the amount of \$.50 was set up in March 1952. This item should be canceled forthwith as no item of this nature actually exists.

**Status of Project 200-2:** Although it is more than four years and three months since the Contract for Financial Assistance for this project was negotiated, it is still in the planning stage.

The State Housing Board has approved the construction of 75 units of an original request for 150 dwelling units based on the number of applicants who are eligible for such housing. Many applications indicate income somewhat in excess of the admission limits therefore this Authority has requested the State Housing Board to raise the limits. At present three eligible applications are required for each apartment to be allocated.

This Authority has further requested the State Housing Board to consider the abandonment of this site because it would be too expensive to build 75 units at the contemplated location because of site improvement costs.

**Comprehensive Public Liability Insurance - Project 200-1:** Attention is directed to the fact that this insurance which was in effect was canceled by direction of the State Housing Board as of July 27, 1953.

Subsequently insurance of a comparable nature and amount was placed with another insurance company. However, this insurance which formerly cost \$.756 per unit per year was billed under the new contract at \$3.44 per unit per year.

#### ATHOL HOUSING AUTHORITY

REPORT NO. 54-H-52

**Commonwealth Contribution:** The Commonwealth may make a contribution of not more than 2 1/2% of the total Development Cost. For the second year under permanent financing it is estimated there will be received \$10,150.00, the maximum amount possible. In this connection there was paid to the National Shawmut Bank of Boston, the fiscal agent for this Authority, \$2,537.50 on December 1, 1953 which represented 25% of that subsidy. The remaining 75% will be paid to the fiscal agent on or before June 1, 1954.

**Transfer of Surplus:** The earned surplus for the first year under permanent financing totaled \$3,202.81 and was transferred to the Operating Reserve account.

No apparent consideration was given at that time to the account for Reduction of Annual Contribution Reserve.

**Provision for Operating Reserve:** The approved budget for the 1954 fiscal year provides for \$412.00 as an Operating Reserve for the entire year. However, during the first six months of operations, \$960.00 has already been provided. In this connection, it was noted that a payment of \$5,000.00 for capital improvements was made to a contractor in settlement of a contract legal suit. This amount was charged to the Operating Reserve account.

It is presumed that the State Housing Board in approving only \$412.00 as an addition to this Reserve anticipated that the Authority would reach the maximum permitted under the Management Program. However, because of the aforementioned \$5,000.00 charge, this level will obviously not be attained for some time.

It is not understood why the Authority proceeded to establish the ordinary "Provision for Operating Reserve" without taking into consideration the possible result of the law suit in progress.



Insurance: This Authority was formerly insured for Comprehensive Public Liability, as follows, on a three year basis:

<u>Period</u>	<u>Units</u>	<u>Annual Premium</u>
January 8, 1951 to January 8, 1954	<u>32</u>	<u>\$24.21</u>

This policy was canceled effective July 27, 1953 by direction of the State Housing Board and the premium refunded was \$10.95.

Subsequently new insurance for apparently the same coverage was written with another insurance company, as follows:

<u>Period</u>	<u>Units</u>	<u>Annual Premium</u>
July 27, 1953 to July 27, 1954	<u>32</u>	<u>\$59.90</u>

In addition to the foregoing, the policy covering Property Damage was also canceled effective July 27, 1953.

Minutes of the Meetings: This important record was not being maintained during the audit period. A similar situation was noted at the time of the previous examination. It is recommended that these records be brought up to date at once and that they be kept in a current state.

Accounts Payable: The previous audit report indicated that certain vouchers were paid even though insufficient detail appeared on them. In this connection a great deal of improvement was noted. However, a few instances were again noted of vouchers being paid that did not show sufficient detail.

It is recommended that an effort be made to have vendors prepare invoices in complete detail.

Contract for Cleaning and Servicing Oil Burners: It was noted that such a contract at \$800.00 was awarded even though there was only one bidder. In this connection, the Executive Director stated that invitations to bid had been mailed to three concerns and that two of them declined to bid and indicated such refusal by telephone. No records however were available of those who had declined to make a bid.

It is recommended that complete files be maintained containing all information related to those invited to bid on contracts.

Investments: It was noted that the Administration Fund has had a fairly large cash balance throughout the year. It is suggested that perhaps a portion of these funds might be invested so that interest may be earned.

Bids on Drainage: Attention is directed to the fact that the contract on drainage was awarded to the lowest bidder of record at \$19,520.00. This contract was subsequently negotiated at \$22,362.00, an increase of \$2,842.00 over the bid. This matter was discussed with a member of the Authority who indicated that inasmuch as approximately six months had elapsed between the date of the opening of the bids and the awarding of the contract, this increase was allowed because of the fact that materials have risen in price in that period. In this connection, attention is called to the fact that the original contract award price was considerably lower than the original bids of the other three bidders.

It would appear that this matter would have been more judiciously handled had new bids been requested prior to the actual awarding of the contract at the later date.

#### MALDEN HOUSING AUTHORITY

REPORT NO. 54-H-53

Tenants' Accounts Receivable - Temporary Construction: On the audit date the balance due from tenants was \$2,216.50, and of this amount \$239.00 was more than one year old, and \$183.25 was more than six months old. It is recommended that steps be taken to write off these items as uncollectible in accordance with the regulations prescribed by the State Housing Board.

Tenants' Security Deposits - Temporary Construction: It was noted that this Authority requires that all tenants post a \$10.00 Security Deposit. It was noted however that of these tenants now living in this project, ten have not paid this amount. It is therefore suggested that the policy of the Authority in this matter be made consistent.

**Closing of Ferry Street Project - Temporary Construction:** The Authority leased a building which was converted into eight apartments. This lease was in effect from May 1, 1948 to May 1, 1953 at an annual rental of \$100.00. When this lease was terminated the project was closed and the property was returned to the owner. In this connection it was noted that after all expenses were paid there still remained a surplus of \$773.66 which was paid to the City of Malden. It was further noted that delinquent Tenants' Accounts Receivable in the amount of \$375.00 were written off against appropriate reserve accounts when this project was closed.

**Refund of Rents - General:** It was noted that several rent refunds had formerly been paid from rent collections. The Executive Director indicated that this practice has been stopped and that all such refunds are now being made by check.

**Dinner for Federal Project - Temporary Construction:** It was noted that the Authority had tendered a dinner, at a cost of \$316.81, in connection with ground breaking ceremonies of a Federal Housing Project. Subsequently the Federal Public Housing Authorities disallowed this expenditure and it was charged to the expenses of the Temporary Construction Project. If such a charge was deemed improper by the Federal Authorities, the action of the Board in charging this cost to the local project is even more improper since the charge had absolutely no relation to the latter project.

**Sale of Refrigerators - Temporary Construction:** It was noted that surplus refrigerators were sold for \$230.00 which was credited to the General Expense account. It is suggested that this amount should possibly have been credited to the Miscellaneous Income account.

**Surplus - Project 200-1:** On December 31, 1953, the close of the third fiscal year of Permanent Financing, this project had a surplus of \$28,725.30. Inasmuch as this maximum allowable Commonwealth Contribution for the project is \$30,400.00, this Authority will probably require a subsidy of only \$1,674.70 for the fourth fiscal year's operations.

**General Contract - Project 200-2:** It was noted that Part I of the Certificate of Completion indicated the existence of a claim of \$7,330.66 for overcoming water conditions.

The Executive Director stated in this connection that the contractor was never authorized a change order for this work and that prior to the preparation of Part I of the Certificate of Completion the Authority was not aware of this claim. It was noted that a letter to the State Housing Board from the Chairman of this Authority stated in part that the contractor:

"was not authorized any Change Order for this work and secondly, the water condition still exists in the project. It is the opinion of the Authority that ----- tried this work as a correctional method for poor or faulty workmanship. The same is the opinion of the Architect, -----, Therefore, the Malden Housing Authority does not recognize ----- claim for \$7,330.66."

Subsequently a hearing was held at the State Housing Board and the following decision was reached:

"This subject has been reviewed and it is my decision that ----- are entitled to payment in the amount of \$4,729.66 for additional labor and materials required to perform work not required by the contract."

It was further noted that the Federal Government has issued a Warrant for Distraint and Levy for unpaid taxes in the amount of \$17,300.52 against the general contractor and therefore, the Authority has not yet released the aforementioned \$4,729.66 or the contract retentions in the amount of \$21,323.50.

**Comprehensive Public Liability Insurance:** Attention is directed to the fact that this insurance in effect was canceled by direction of the State Housing Board as of July 27, 1953.

Subsequently insurance of a comparable nature and amount was obtained. It was noted, however, that this insurance which was formerly paid for at the rate of \$.756 per unit per year was billed under the new contract as follows per unit per year:



Project 200-1  
Project 200-2

\$2 81  
3 16

## BELMONT HOUSING AUTHORITY

REPORT NO. 54-H-54

Contract Award: It was noted that a contract for the revision of the heating system had been awarded to the third lowest bidder. A tabulation of the three lowest bids follows:

Bidder #1	\$62,848 00
Bidder #2	75,000 00
Bidder #3	75,400 00

In this connection the following abstract from the minutes of the Authority's meeting of April 10, 1953 indicates why the normal practice of awarding contracts to the lowest bidder was not followed:

"..... The Executive Director had received a credit report and a statement from suppliers regarding each of the three bidders, and he furnished this information to the members. Since each of the three bidders had furnished us with a financial statement and a statement of work done, the members were in a position to review these statements and discuss each bidder at length.

"It was the consensus of all members that we have had a tremendous amount of trouble with our present heating system, and that since we were in the process of correcting this difficulty, that we should secure the best possible job for the Authority and would consider all phases of the individual bidder's facilities for carrying out our job to a successful conclusion.

"The members decided, after reviewing these statements very carefully, that Bidder #3 possessed the best qualifications for completing our job satisfactorily. The difference in the amount of the contract between the low bid and Bidder #3 was also weighed very carefully, and it was the consensus of the members that, in spite of the apparent saving if they took the low bid, it would be to the distinct disadvantage of the Authority and to the public whom they represent."

This award which, it will be noted, was for \$12,552.00 more than the bid of the lowest bidder was subsequently approved by the State Housing Board on May 19, 1953.

Legal Action: It was learned that since this project was constructed, difficulty has been experienced with the heating system. The previous audit report noted that the Authority had brought suit against the contractors involved, alleging breach of heating specifications.

The Auditor who heard this case found in the Authority's favor for \$5,500.00 and judgment in recoupment was entered for the general contractor in the amount of \$1,500.00 (representing the final payment due him). A motion was made to recommit the case to the Auditor, but it was denied.

The attorney for the Authority advised against appealing to the Supreme Court. The Authority then requested the State Housing Board for permission to accept the judgment of \$5,500.00 rather than go to the expense of an appeal. On December 30, 1953 the State Housing Board approved closing the case on the basis of the findings of the Auditor.

Cash: As of the date of audit, the balance in the Administration Fund totaled \$61,835.69. Since there appears to be no immediate need for this large amount of cash, it was recommended to the Executive Director that some consideration be given to investing any excess amounts.

Initial Operating Period: The Initial Operating Period for this project ended on June 30, 1953. At that time the final development cost of the project was ascertained and the net income of \$94,863.98 was disposed of as follows:

Insurance Reserve	\$ 4,940 00
Operating Reserve	19,523 89

Accrued Payment in Lieu of Taxes	\$ 2,500 00
Reduction of Development Cost	<u>67,900 09</u>
	<u>\$94,863 98</u>

Financing of this project is still carried on a temporary basis.

**Comprehensive Public Liability Insurance:** Attention is directed to the fact that this insurance in effect was canceled by direction of the State Housing Board as of July 27, 1953.

Subsequently, insurance of a comparable nature and amount was purchased from another company. It was noted, however, that this insurance which formerly cost \$.756 per unit per year, was billed under the new contract at the rate of \$1.87 per unit per year.

#### NEWBURYPORT HOUSING AUTHORITY

REPORT NO. 54-H-55

**General:** The accounting for this Authority is performed by an outside accountant.

It was noted that the bank checks were signed by only the Treasurer of the Authority. Even though the by-laws of the Authority specified that only one signature is necessary this arrangement is unusual, in that two signatures are required by practically all other housing authorities.

**Travel Expense:** It was noted that the vouchers for travel expenses of one of the members did not show any details. These vouchers simply stated for example: "Business Trip to Boston - \$20.00".

It is recommended that henceforth all details of expenditures be shown on the vouchers submitted.

**Income on Investments:** It was noted that income received from securities purchased was incorrectly credited to the Debt Service Expense account. This income should have been credited to Miscellaneous Income account. The necessary adjusting entries should be effected forthwith.

**Investments:** The trial balance of January 31, 1954 did not show any investments as being on hand although securities in the amount of \$22,000.00 had been purchased on January 21, 1954.

**Accounts Payable - Development:** Amounts covering specific items that had been charged to Development Costs but had not been paid were established as Accounts Payable - Development. Analysis of these accounts and their related disbursements during the current audit period indicated that an item of \$1,725.00 which had originally been set up in this category had been incorrectly charged to the Operating Reserve when it was paid.

**Payment in Lieu of Taxes:** The basis of the payments to cities and towns was changed in accordance with a directive issued by the State Housing Board dated December 16, 1953 and was to be retroactive for the year 1953. This directive stated that any additional amounts of such taxes would be chargeable to the Operating Reserve account of each project so that the established budgets would not be distorted.

However when the payment on this adjusted basis was actually made, the procedure outlined originally was not followed and the total amount of these taxes was improperly charged to the expense account for Payment in Lieu of Taxes. This additional amount which should be adjusted totaled \$494.97.

Because of the fact that these taxes were not correctly posted the surplus for the 1953 year was understated by \$494.97.

In direct connection with this matter it is also questionable whether this amount will ever be actually used as a reduction of the State subsidy or will be applied to the Operating Reserve account. The matter was discussed with the State Housing Board accountant and to the date of the completion of this audit, no decision had been made. It was also learned that in the near future it will be necessary to install new heating units and unusual expenditures such as this are charged to the Operating Reserve account and the handling of this tax increment could conceivably affect the establishment of a true balance in the account.

**Commonwealth Subsidy:** As indicated earlier in this report it had not yet been decided whether the surplus for the 1953 year would be used as a reduction of the Commonwealth contribution for 1954, because of the contemplated unusual expenditures. However,



there appears to be no justification for crediting the entire surplus to the Operating Reserve and it is urged that the major portion be used as a reduction of the Commonwealth contribution.

**Operating Reserve:** The Operating Reserve account totaled \$7,240.64 at the end of the first year under Management. Because of this balance the maximum of \$300.00 per unit or \$12,600.00 may be reached in approximately two years and eight months, which is considerably less than the five year period during which it was contemplated such maximum would have been reached per the Management Program.

It therefore appears that there is no real reason to credit the entire Surplus for 1953 to this account. As a matter of information it was understood that it is estimated the purchase of new heaters will involve approximately \$6,000.00. The expenditure however will cover a period longer than one year and therefore should be assumed through the Operating Reserve account by partial credits from earned surplus of the respective years and the maximum indicated still would be reach within the five year period.

**Tenants' Ledger:** In checking the Tenants' Accounts Receivable it was noted that rental adjustments for partial months of the move-out tenants were not brought onto the ledger accounts and refunds to tenants for the rental adjustments were not recorded on the ledgers. It is suggested that steps be taken to correct these conditions.

**Comprehensive Public Liability Insurance:** Attention is directed to the fact that this insurance in effect was canceled by direction of the State Housing Board as of July 27, 1953.

Subsequently insurance of a comparable nature and amount was purchased. It was noted however that this insurance which formerly cost \$.756 per unit per year was billed under the new contract at \$2.32 per unit per year.

#### NORTHBRIDGE HOUSING AUTHORITY

REPORT NO. 54-H-56

**Permanent Financing:** The Commonwealth subsidy contribution for the third year of this Authority under Permanent Financing was \$3,618.41 and was computed as follows:

2 1/2% of Total Costs	\$5,500 00
Reduction Reserve Applied	1,881 59
	<u>\$3,618 41</u>

This contribution was paid to Worcester County Trust Company, fiscal agent for this Authority, on or about September 15, 1953.

**Delinquent Accounts:** Attention is called to the fact that rent accounts receivable totaling \$577.45 were in arrears as of the date of audit. It is noted that these delinquent accounts have more than doubled since the previous audit and it is therefore suggested that more organized steps be taken to enforce collections of such items.

**Vacancy Loss:** Attention is called to the fact that to the date of audit a vacancy loss of \$333.41 was recorded on the books of this Authority.

This vacancy loss was attributed to the fact that there are not enough eligible applicants in the immediate area. In this connection it became necessary to extend the area coverage for applicants to neighboring towns and in a few instances were as far away as the Worcester area.

**Comprehensive Public Liability Insurance:** This Authority was formerly insured for this type of insurance as follows:

<u>Period</u>	<u>Units</u>	<u>Annual Premium</u>
August 31, 1950 to August 31, 1953	22	\$16 65

This Policy was canceled effective July 27, 1953 by direction of the State Housing Board, and as a result, a premium was refunded of \$1.60.

Subsequently new insurance for apparently the same coverage was written with another company, as follows:

<u>Period</u>	<u>Units</u>	<u>Annual Premium</u>
July 27, 1953 to July 27, 1954	22	\$49 41

In addition to the foregoing the policy covering Property Damage was also canceled effective July 27, 1953.

**Contract for Servicing and Cleaning Oil Burners:** It was noted that this contract was awarded to the only bidder of record. In this connection it was learned that invitations to bid had been sent to three concerns. Two of them however declined to bid which was indicated by statements from them on file.

**Miscellaneous Repairs:** It was noted that an invoice for the repair of doors, windows, latches, etc., in the amount of \$470.80 was paid on July 29, 1953. It is suggested that henceforth items of this nature should be contracted for after competitive bids have been invited.

**Legal Fees:** The previous audit report referred to an accounts payable representing settlement of a legal services contract in the amount of \$800.00. It was noted that this item was transferred to Operating Reserve. This matter was still unsettled on the date of audit.

#### NEW BEDFORD HOUSING AUTHORITY

REPORT NO. 54-H-57

**Utilities:** The previous audit report commented that the total of the actual cost of the utilities had exceeded aggregate monthly charges made to the tenants for this service. Since that time, corrective measures have been taken and it is noted that the costs are comparable with budget estimates. It is further understood that surcharges will be made when the normal amount is exceeded.

**Ineligible Tenants:** It was noted in the three projects there were five tenants who had become ineligible for continued occupancy because their family income had apparently exceeded the continued occupancy limits. In each of these instances the tenants have been served notices to vacate the premises which they presently occupy.

**Tenants' Accounts Receivable - Project 200-2:** It was noted that there was \$2,522.64 outstanding on January 31, 1954 for rent in arrears. It was understood that this large amount outstanding was occasioned by unemployment in this area. It is, however, suggested that further efforts be made to keep outstanding accounts to a minimum.

**Comprehensive Public Liability Insurance:** Attention is directed to the fact that the insurance in effect in July 1953 was canceled by direction of the State Housing Board. The cost for this coverage was formerly at the rate of \$.756 per unit per year for all projects.

Subsequently, comparable insurance was purchased. However, this new insurance was billed under the new contract as follows:

Project 200-1 -	\$4.82 per unit per year
Project 200-2 -	3.99 per unit per year
Project 200-3 -	5.23 per unit per year

**Payments in Lieu of Taxes:** This Authority was directed, in a bulletin issued by the State Housing Board under date of December 16, 1953, to compute the payments in lieu of taxes to the City of New Bedford at \$3.00 per unit per month. Payments under the formula formerly in effect, which was based on 5% of shelter rent collected, totaled approximately \$2.00 per unit per month. It was further noted that the recent bulletin also directed this Authority to reduce its Provision made for Operating Reserve by \$1.00 per unit per month in order to offset this increase in the payments in lieu of taxes.

It would appear that this action will result in increasing the annual Commonwealth contribution because when the Operating Reserve attains its maximum, no further charges will be made to offset this increase in payments in lieu of taxes.

**Disposition of Surplus:** During this audit period disposition of the operating surplus of the three projects was made with authorization of the State Housing Board, as follows:

Project	For the Fiscal Year Ending	Amount of Surplus	Transfer to Operating Reserve	Transfer to Reduction of Commonwealth Contribution
200-1	December 31, 1953	\$6,268 35	\$6,268 35	\$6,268 35



200-2	September 30, 1953	\$9,440 14	\$9,440 14	\$9,440 14
200-3	March 31, 1953	6,159 53	6,159 53	6,159 53

Commonwealth Contribution: During this audit period this Authority had either received or had been officially advised of annual Commonwealth Contributions, as follows, for the three projects:

<u>Project</u>	<u>For the Fiscal Year Ending</u>	<u>Maximum Contribution</u>	<u>Amount of Contribution Authorized</u>
200-1	December 31, 1953	\$24,000 00	\$17,731 65
200-2	September 30, 1953	36,400 00	26,959 86
200-3	March 31, 1953	19,925 00	13,765 47

Local Fund: This Authority received \$3,800.00 from the City of New Bedford in 1939 for expenses of the Authority. This money was an outright grant and is not subject to reimbursement.

It is understood that disbursements are made from this fund for travel and other incidental expenses.

#### WALTHAM HOUSING AUTHORITY

REPORT NO. 54-H-58

Demolition of Temporary Units: As of January 15, 1954, all of these units had been vacated. Demolition started as soon as they became vacant and this Authority received \$3,000.00 for the last five buildings. It was understood that the books of this project will be closed as of April 30, 1954.

Temporary Construction Project - Security Deposits: It was noted that there was still one security deposit which had not been returned to a former tenant. However, the control account in the general ledger indicated there were two such security deposits on hand. It is suggested that the necessary adjustments be made.

Chapter 200 - Project 200-3 - Administration Fund Agreements: It was noted that there had been no Administration Fund Agreement since January 15, 1954, which was the date of the initial occupancy of this project. As a result, deposits are not being made in a bank approved by the Chairman of the State Housing Board. This matter was brought to the attention of the Executive Director who has taken the necessary steps to correct it.

Chapter 200 - Project 200-2 - Administration Fund Agreements: It was also noted that there had been no Administration Fund Agreement for the savings account maintained by this project which was opened on February 13, 1953, and as a result these funds are not being deposited in a bank approved by the Chairman of the State Housing Board. This matter was also brought to the attention of the Executive Director of the Authority who has taken steps to obtain such agreement.

Petty Cash Fund: It is suggested that this petty cash account in Project 200-1 of \$25.00 and the petty cash account of the Temporary Construction Projects of \$25.00 each be closed and that a fund for these purposes be established as part of the Revolving Fund maintained by this Authority.

Comprehensive Public Liability Insurance: It was noted that prior to July 27, 1953, the cost of this insurance was \$.76 per unit per year. Since that date, comparable insurance was obtained and the cost for Project 200-1 has been \$2.30 per unit per year and for Project 200-2 has been \$2.86 per unit per year. These increases were brought about as a direct result of an action suggested by the State Housing Board.

General: It was noted that the following errors were made in connection with handling the accounts:

Project 200-1: In the redemption of bonds on January 1, 1954, only \$25,000.00 had been journalized as being redeemed, although a total of \$26,000.00 had actually been redeemed. This was brought to the accountant's attention and the necessary correcting entry was made.

Project 200-2: It was noted that the expenses and the Accounts Payable were overstated by \$1.90. This was also brought to the attention of the accountant who made the

necessary correcting entries.

The expenses had been overstated by \$134.45 during the previous fiscal year which also affected the surplus for that year. This error also was corrected by appropriate entries.

Project 200-3: It was noted in checking State Housing Board Form No. 70 - Analysis of Development Cost for the month of January 1954 that there was an error in addition of \$1,000.00. This, too, was corrected while the audit was in progress.

It was also noted that the Premium received from the sale of Temporary Notes had been credited to the interest in development account and this should, of course, be amortized over the life of the issue.

Audit Fees: It was noted that Project 200-1 had been charged \$37.50 per month for these fees while it should have been charged \$50.00 per month. On the other hand, Project 200-2 had been charged at the rate of \$50.00 instead of only \$37.50. These incorrect charges were in error from July 1953 to January 1954. It is, therefore, recommended that the necessary adjustments be made forthwith.

Chapter 200 - Project 200-2 - Suit Pending: This Authority has brought suit against the general contractor in the amount of \$13,000.00 because of damages occasioned by underground leaks in the domestic hot water line and for a roof leak in the Administration Building which caused the plaster on one wall of the rest room to fall. To date considerable funds have been expended to repair the underground leaks.

Chapter 200 - Project 200-1 - 1953 Operations: For the fiscal year ended December 31, 1952, this project operated at a loss of \$24,443.17 before applying the Commonwealth Contribution of \$26,840.62 and the \$9,035.51 which had been reserved from the prior year's operations for the purpose of reducing the annual subsidy from the Commonwealth. The State Housing Board has instructed this Authority that the project surplus of \$11,432.96 resulting from these applications will be used to reduce the subsidy for the fiscal year ending December 31, 1954.

Chapter 200 - Project 200-2 - Operations: For the fiscal year ended December 31, 1953, this project was operated at a loss of \$27,946.04 before applying the Commonwealth Contribution of \$28,727.47 and the subsidy reduction of \$947.53. The State Housing Board has instructed the Authority that the project surplus of \$1,728.96 resulting from the receipt of this subsidy will be used to reduce the Commonwealth Contribution for the fiscal year ended December 31, 1954.

#### UXBRIDGE HOUSING AUTHORITY

REPORT NO. 54-H-59

Subsidy Payments: The Commonwealth has paid to the fiscal agent of this Authority, the Second National Bank of Boston, the third annual subsidy in the amount of \$4,647.18. This payment was made directly to the fiscal agent on June 5, 1953.

In addition, there was paid to this fiscal agent \$1,727.82 on December 3, 1953 which represented the amount originally transferred to the Annual Contribution Reduction Reserve.

It is understood that the subsidy payment for next year will be \$5,818.29, computed as follows:

2 1/2% of Total Costs	\$6,375 00
1953 Surplus	556 71
	<u>\$5,818 29</u>

Insurance: This Authority was formerly insured for Comprehensive Public Liability, as follows, on a three year basis:

<u>Period</u>	<u>Units</u>	<u>Annual Premium</u>
February 16, 1953 to February 16, 1956	<u>22</u>	<u>\$16 65</u>

This policy was canceled effective July 27, 1953 by direction of the State Housing Board and the premium balance of \$42.06 was refunded.

Subsequently new insurance for apparently the same coverage was written with another insurance company, as follows, on an annual basis:



<u>Period</u>	<u>Units</u>	<u>Annual Premium</u>
July 27, 1953 to July 27, 1954	<u>22</u>	<u>\$49 41</u>

In addition to the above cancellation, the policy covering Property Damage was also canceled effective July 27, 1953.

**Bonded Personnel:** Although there is a blanket position bond covering all employees of this Authority, it was noted that additional coverage was purchased to include an employee who is responsible for collecting rents. A short time thereafter, this policy was canceled, apparently when it was determined that the employee was covered under the blanket bond.

No evidence of a return payment ever having been received was noted in the records. It is suggested that steps be taken to adjust this matter.

**Delinquent Rents:** It was noted that rents in arrears, as of the date of audit totaled \$512.90. This would appear to be large for a project of this size and it is suggested that steps be taken to confine items such as this to a minimum.

**Vacancy Loss:** The vacancy loss for the 1953 year is more than three times that of the previous years. At the present time there is a vacant unit, which will probably result in indicating even a larger vacancy loss for the current year.

It is recommended that possibly the rental policy can be extended to include residents of neighboring towns, thereby enabling this Authority to draw applicants from a larger population.

**Security Deposits:** It was noted that a refund check was drawn to a former tenant, who has vacated his unit owing rent. Inasmuch as this check was never actually issued it is suggested that it be voided and be applied against the rent in arrears.

**Contract for Renailing and Replacing Broken Shingles:** This contract, in the amount of \$325.00 was awarded to the only bidder of record.

Apparently the concern who was given the contract was the only one that bid even though bids were invited in newspaper advertisements in the local press.

#### WILMINGTON HOUSING AUTHORITY

REPORT NO. 54-H-60

**End of Initial Operating Period:** On June 30, 1953 the final development cost of the project was ascertained to be \$198,000.00 and the books of the Initial Operating Period were closed. The amount of notes authorized was reduced by \$2,000.00 from \$200,000.00 and notes were issued in the amount of \$198,000.00 for the Temporary Financing of the project on a yearly basis.

This Authority will receive the maximum subsidy of \$4,950.00 or 2 1/2% of the Development Cost from the Commonwealth for its first year of operations under Management.

#### CANTON HOUSING AUTHORITY

REPORT NO. 54-H-61

**Bank Deposits:** It was noted that rent collections were not being promptly deposited. It was further noted that the deposits could not be reconciled with the total of rent receipts.

**Minutes of Board Meetings:** It was noted that the minutes of the board meetings are not being currently maintained. It is suggested that the records of these meetings be kept current at all times.

**Petty Cash:** Although the petty cash account for this project has been discontinued the records still indicate a balance of \$20.00. This matter was called to the attention of the Executive Director for adjustment.

**Deposits on Plans:** It was again noted that \$100.00 representing deposits on plans and specifications forfeited by two contractors, was still being carried in a separate bank account. It is suggested that these funds be disposed of in conformance with existing directives.

**Accounts Payable Vouchers:** It was noted that the accounts payable vouchers are not being properly signed. It is suggested that all vouchers be so signed

**Comprehensive Public Liability Insurance:** Attention is directed to the fact that this insurance formerly in effect was canceled by direction of the State Housing Board, as of July 27, 1953.

Subsequently this insurance was replaced with coverage of comparable amount and scope. However, it was noted that the insurance now in effect which had previously been paid for at the rate of \$.756 per unit per year was billed under the new contract at \$2.25 per unit per year.

## WALPOLE HOUSING AUTHORITY

REPORT NO. 54 H-62

**Operations under Permanent Financing:** The books of the Authority, after taking into consideration the Commonwealth Contribution of \$10,786.00 and the transfer of \$1,564.00 from the Contribution Reduction Reserve, indicated a surplus of \$4,262.56 for the second fiscal year under Permanent Financing, which ended on December 31, 1952. This surplus was disposed of in the following manner:

Transfer to Operating Reserve	\$3,449 00
Transfer to Contribution Reduction Reserve	813 56
	<u>\$4,262 56</u>

It was further noted that this Authority received a subsidy of \$11,536.44 for its third fiscal year's operations. This amount represents the maximum subsidy of 2 1/2% of the certified development cost less an amount of \$813.56 reserved for subsidy reduction from the surplus of prior fiscal year.

As of the date of audit, the Authority had not been officially advised of the disposition of the surplus of the third fiscal year, which amounted to \$4,868.82.

**Tenants' Ledger:** The examination of the tenants' ledger indicated that the charges had not been posted to the individual accounts until the payment was received. It was also noted that there were no posting references in the column provided for that purpose in this folio.

It is recommended that rental charges be posted when due and that the posting references be properly shown.

**Rent Receipts:** It was noted that the rent receipts had not been issued in numerical sequence. It was further noted that they were dated as of the first day of the month for which the rent was due and not on the date that it was collected.

It is suggested that these rent receipts be issued in numerical sequence and that they show the actual date that payment was made to the Authority.

**Investment Income:** It was noted that investment income in the amount of \$55.02 earned by the Chapter 200 project had been credited to the Special Account in error. This matter was brought to the attention of the bookkeeper who notified the bank of its error. It is understood that the bank will make the necessary adjustment.

**Bank Deposits:** It was noted in certain of the months of the audit period the rent receipts were not credited by the bank as having been deposited for periods as long as twenty days. It was explained by the bookkeeper that the rental receipts were actually dropped into the bank's night deposit vault promptly after receipt but deposit was not actually credited until such time as either the Assistant Treasurer or the Executive Director of the Authority was available to pick up the bags, as only they had this authority.

It would appear that if it is not practical for either of these two individuals to reach the bank during its banking hours, that the bookkeeper who is now employed to deposit such receipts during regular banking hours should be additionally authorized to so function in connection with night deposits.

**Bid Deposit:** It was noted that a deposit balance of \$52.00 which was originally made during Development has been outstanding since October 1951. It is understood that this deposit was actually forfeited because the plans given at the time of making the deposit were never returned. It is therefore suggested that this account be closed.



**Tenants' Accounts Receivable:** The trial balance of the tenants' ledger as of January 31, 1954 indicated that the aggregate of the individual accounts was not in agreement with the control account in the general ledger. It was however determined that \$115.50 reflected on the Authority's records as Prepaid Rent should have actually been credited to the control account. It was also noted that the charge to the control account for the month of December 1953 was \$21.00 in excess of the amounts charged to the individual tenants' accounts. After the adjustments indicated had been made the detail accounts and the control account were in reconciliation.

**Comprehensive Public Liability Insurance:** Attention is directed to the fact that this policy which was formerly in effect was canceled by direction of the State Housing Board as of July 27, 1953.

Subsequently insurance of a comparable nature and amount was obtained. It was noted, however, that this insurance which had previously cost \$.756 per unit per year was billed under the new contract at the rate of \$1.87 per unit per year.

#### DEDHAM HOUSING AUTHORITY

REPORT NO. 54-H-63

**Project 200-1 - Bonds Retired and Development Cost Liquidation:** It was noted that these accounts which should reflect the balance of bonds retired to date, were incorrectly stated. This was occasioned by bonds in the amount of \$15,000.00, which had been paid as of October 1, 1953, being brought on the books of the Authority as of November 30, 1953 and again in January 1954. This matter was brought to the attention of the accountant for the Authority who indicated that the necessary adjustments would be made.

**Security Deposits:** When this project went into occupancy security deposits were not required of respective tenants. However, such deposits were required beginning in July 1951 for new tenants. Accordingly, the original tenants of Project 200-1 do not have such deposits.

The previous audit report suggested that deposits be obtained from tenants not originally covered and in this connection a letter was released to each such tenant as of October 1, 1953, requesting a deposit of this nature by November 1, 1953. Even though a partial payment plan was permitted, to the date of this audit the records indicated only 72% of the collections had been made. It is suggested that steps be taken to secure the unpaid balances so that all tenants will be covered.

**Debt Service Fund:** The certification of the balance of this fund, from the fiscal agent, indicated that the State subsidy for 1954 had been deposited on February 19, 1954. The Authority, however, had received no notice of this deposit with the result that the general ledger balance as of February 28, 1954 did not reflect the correct cash position. The deposit, \$15,230.72, was brought on the records by supplementary entry.

**Investments - Miscellaneous Income:** It was noted that the Miscellaneous Income on Investments was not being correctly handled and, therefore, this income was being incorrectly reflected. The basis used was to set the securities up at the par value and to immediately credit the difference between the cost and par to this account. The difference together with interest accruing on securities purchased should be passed through the interest accounts. The income account should be credited as interest is earned.

**Project 200-2 - Bonds Retired and Development Cost Liquidation:** It was noted that these accounts were also incorrectly stated, as bonds due and paid as of October 1, 1953 had been brought on to the records twice. The accountant for the Authority was advised and it is understood that the necessary adjustments will be effected.

**Debt Service Fund:** The certification of this balance, received from the fiscal agent, also indicated that the State subsidy for 1954 in the amount of \$5,051.12 which had been deposited on February 19, 1954, was not entered on the records of the Authority as of February 28, 1954 because no advice of it had been received. The accountant was instructed to make the necessary adjustment.

**Development Fund:** The records of this fund reflected a balance in this account of \$3.16 as of February 28, 1954, although the account has been closed since September 1953. The balance was due to incorrect closing entries made by the accountant. An adjustment was prepared and the Authority's accountant was advised to enter it.

P.D. 6

**General - Over Income - Tenants:** It appeared there were two tenants in each of the projects earning more than the income limits. If these tenants are permitted to retain their apartments after they have passed their income limits, it is suggested that the basis used be adjusted.

**Comprehensive Public Liability Insurance:** Attention is directed to the fact that this insurance formerly in effect was canceled by direction of the State Housing Board as of July 27, 1953.

Subsequently, insurance of a comparable nature and amount was obtained. However, it was noted that this insurance which formerly was paid for at the rate of \$.756 per unit per year was billed under the new contract as follows:

Project 200-1	\$2 81 Per unit per year
Project 200-2	2 25 Per unit per year

## ROCKPORT HOUSING AUTHORITY

REPORT NO. 54-H-64

**Income Review:** It was noted that the required annual review of the tenants' income had not been made by this Authority since the project was originally occupied. It is understood that such a review was initiated while this audit was in progress.

**Annual Report:** Section 26U of Chapter 121 of the General Laws, as amended, provides that the housing authorities shall make an annual report in the month of January to certain state and municipal officials. As noted in the previous audit report, this Authority had not prepared such an annual report for the calendar year 1952. It was further noted that the Authority had also failed to file this report for the 1953 calendar year. It is understood, however, that steps are being taken to compile delinquent reports.

**Minutes:** There was no record in the minute book of any meetings of this Authority between December 9, 1952 and October 1, 1953. It was understood, however, that the board, as such, was not functioning during that period. Since October 1, 1953, it was noted, the board has been officially meeting each month.

**Operations - Second Fiscal Year:** The records of the Authority reflected a deficit of \$282.78 after the receipt of the maximum Commonwealth Contribution of \$4,075.00 for the second fiscal year under Permanent Financing which ended on June 30, 1953. This deficit was disposed of by a transfer from the Operating Reserve.

It was noted that this Authority has again received the maximum permitted subsidy of \$4,075.00 for the third fiscal year under Permanent Financing.

**Repairs, Maintenance and Replacements:** It was noted that to the date of audit, the amount charged to the Repairs, Maintenance and Replacements account has already exceeded the amount budgeted for that purpose for the entire fiscal year ending June 30, 1954. It is suggested that all future expenses in this category be confined to a minimum.

**Sewerage Cost:** The overflowing of the septic tanks originally installed in the project created additional expense as well as poor sanitary conditions. In order to remedy these conditions, it was decided to connect the project with the sewerage system of the town of Rockport. The Authority thereupon made a payment of \$3,000.00 to the town for the estimated cost of this work. As of the date of audit, information relating to the cost of this project had not yet been submitted to the Authority.

**Tenants' Accounts Receivable:** It was noted that as of the date of audit the accounts of three tenants residing in the project reflected outstanding balances which came into being when the units were originally occupied in September 1950. It is suggested that action be taken to liquidate these items.

**Comprehensive Public Liability Insurance:** Attention is directed to the fact that this insurance formerly in effect was canceled by direction of the State Housing Board as of July 27, 1953.

Subsequently insurance of a comparable nature and amount was placed with another insurance company. However, this insurance which was formerly paid for at the rate of \$.756 per unit per year was billed under the new contract at the rate of \$2.25 per unit per year.



## CHICOPEE HOUSING AUTHORITY

REPORT NO. 54-H-65

Project 200-1

**Debt Service Payments:** This Authority pays into its Debt Service Fund through its fiscal agent each year from rental income an amount, which together with monies received from other sources, will equal that fiscal year's total debt requirements. For the first fiscal year this amount was paid in ten monthly payments, one-twelfth being paid on or before the fifteenth day of the month in each of the first nine months and the balance being paid on or before the fifteenth of the tenth month of the fiscal year. However, starting with January 1, 1953, the beginning of the second fiscal year under Permanent Financing, this amount was paid at one time and forwarded to the fiscal agent. This payment was computed as follows:

Bonds Maturing and Interest Payable January 1, 1954		\$83,375 00
Less:		
State Contribution	\$32,157 65	
Reduction Reserve	22,442 35	
Interest on Investment	893 27	
1/40 of Premium	977 23	56,470 50
Project Payment		<u>\$26,904 50</u>

The maximum subsidy of 2 1/2% of the development costs, as provided in the Contract for Financial Assistance with the Commonwealth, was reduced for the second fiscal year by the amount of \$22,442.35, which represented the surplus from the first fiscal year of operation.

**Project Rents:** It would appear that the rents charged are more than adequate to meet the operating costs of this project. In this connection attention is directed to the fact that the operating profit for the first two fiscal years amounted to \$22,442.35 and \$23,410.38 respectively, after taking into consideration subsidy payments.

At the present, the Authority is charging tenants with one or two dependents 18% of their income and those with three or more minor dependents 14% of their income. An analysis of the charges as at February 28, 1954 indicated the following:

45	Tenants with one dependent	20%
79	Tenants with two dependents	35%
102	Tenants with three or more dependents	45%
<u>226</u>		<u>100%</u>

It is suggested that the management section of the State Housing Board and the Chicopee Housing Authority study the feasibility of amending the management resolution section pertaining to rental charges.

**Development Fund:** It was noted that this Authority has a cash balance of \$1,989.25 in its Development Fund. Since all outstanding accounts have apparently been paid and no further charges are anticipated, it is recommended that this balance be transferred to the Administration Fund and added to the working capital.

**Accounts Receivable - Tenants' Rents:** It was noted that tenants' rents totaling \$560.83 were charged off as uncollectible during this audit period. This charge off was approved by the members of the Authority and the Chairman of the State Housing Board.

**Comprehensive Public Liability Insurance:** Attention is directed to the fact that this insurance, formerly in effect, was canceled by direction of the State Housing Board as of July 27, 1953.

Subsequently, this insurance was replaced with coverage of comparable amount and scope. However, this insurance, which was formerly paid for at the rate of \$.756 per unit per year was billed under the new contract at \$2.02 per unit per year.

**Temporary Construction Project - Transfer of Funds from City of Chicopee:** In this connection the previous audit report stated:

"The following item was included in the Aldermanic Records, City of Chicopee, page 16, dated August 6, 1946:

'Ordered that the City Auditor be and is hereby authorized to transfer the sum of Four Thousand Dollars (\$4,000.00) from the Excess and Deficiency Account to the Housing Authority Maintenance Account under the provisions of Chapter 372 of the Acts of 1946.'

"In connection with the foregoing it was noted that the amount indicated was received by this Authority and was deposited in the Holyoke National Bank. There is, however, no record of this item on the financial records of this Authority. It is understood that this will be used in connection with providing housing for Veterans of World War II under the provisions of Chapter 372 of the Acts of 1946. Expenditures in the amount of \$211.15 were made from this appropriation in connection with the Meadow Terrace Federal Project for which the Authority reimbursed the fund. This project was transferred to the City of Chicopee by the Public Housing Authority on January 1, 1950 with the Chicopee Housing Authority acting as agent for the City."

It was recommended that this amount be recorded on the financial records of the Meadow Terrace Project and that it be turned over to the City of Chicopee. As of the date of this audit, this amount still does not appear on the financial records of the Authority.

In this connection it was learned that the attorney for the Authority has given his opinion that this \$4,000.00 should be turned over to the City of Chicopee.

It is therefore again recommended that this amount be recorded on the financial records of this Authority and that it be disposed of in accordance with existing directives.

#### LOWELL HOUSING AUTHORITY

REPORT NO. 54-H-66

Tenants' Accounts Receivable - General: On the date of audit the following outstanding rent balances were due from tenants:

Temporary Construction	\$2,909 73
Project 200-1	6,976 69
	<u>\$9,886 42</u>

The foregoing amounts include the following which have been outstanding more than six months:

Temporary Construction	\$2,027 82
Project 200-1	2,049 01
	<u>\$4,076 83</u>

It is recommended that immediate steps be taken to dispose of these items in accordance with the regulations prescribed by the State Housing Board, if it is determined that there is no possibility of their collection. It was further noted that items of this nature totaling \$705.88 were written off as uncollectible during the current audit period. This matter was discussed with the executive director who stated that these large amounts of delinquent rents were occasioned mainly by the present poor economic conditions in this particular area.

Tenants' Security Deposits - General: It was noted that this Authority revoked its policy of collecting Security Deposits from tenants. All such deposits with the exception of two \$10.00 each have either been refunded or applied against rents or as partial reimbursements because of damages to apartments.

It was learned that the two remaining deposits have not been refunded because those to whom they are due cannot be located.

Outstanding Checks - General: It was noted that several small checks totaling \$26.35 have been outstanding for more than one year. It is understood that stop-payment orders will be issued on them and proceeds added to the balance on deposit.



**Status of Temporary Construction Project:** This Authority is presently preparing to return these units to the City of Lowell for demolition and in this connection sixty-four units were so returned during the current audit period. On the date of audit eighty-nine units were still under the control of this Authority while eight of them had already been vacated in anticipation of demolition. It was noted that the operating costs for this project have not been correspondingly decreased in relation to the number of units still rented and as a result this project is being operated at a deficit. In this connection it was determined that the operating loss from January 1, 1954 to February 28, 1954 was \$369.30 and it was estimated by the accountant for the Authority that this loss would increase as other units are returned to the City of Lowell. It is therefore recommended that the remaining units be vacated on a more accelerated basis so that these losses may be held to a minimum. It is conceivable if the total deficit exceeds the existing reserves balances of \$7,092.06, the City of Lowell as the owner of these units might possibly be required to pay whatever is not covered by the reserves.

**Vacancy Loss - Project 200-1:** During this audit period there was incurred a vacancy loss of \$6,263.12. This loss entailed 3,898 days of unit vacancies despite the fact that there is apparently a number of eligible applicants for apartments. In this connection, the executive director attributed this large loss to an unusual turnover, as it is the policy of this Authority to renovate vacated units, these vacancy losses will undoubtedly continue.

It is suggested that the renovating and renting of vacated apartments be hastened to reduce these vacancy losses in the future.

**Utilities Furnished by General Contractor - Project 200-1:** When this project was originally accepted an agreement was entered into with the general contractor with regard to charges for utilities to be furnished until the boiler room could be accepted as complete. During the period from March 1, 1951 to January 24, 1952 the general contractor rendered invoices totaling \$47,907.09 for such services, which included water charges of \$209.07 that were subsequently paid by the Authority and an item of \$5,425.58 for overhead and profit. This amount was questioned because of the inclusion of the paid water bill, and that portion representing profit. The entire matter was, however, finally settled and paid with the approval of the State Housing Board for \$44,985.00.

**Permanent Financing - Project 200-1:** This project has not yet entered into permanent financing because of two pending matters now in litigation. These cases developed from the purchase of land for the project site.

**Payment in Lieu of Taxes - Project 200-1:** In revising the rates for the computation of Payments in Lieu of Taxes, the State Housing Board has directed that such payments for the 1953 calendar year be made on the new basis and that the difference be charged to the Operating Reserve account. In this connection it was noted that this difference had been charged to the Surplus account in error.

It is understood that the necessary adjustments will be made.

The following comparison is shown giving effect to the old and revised rates for Payments in Lieu of Taxes and the Operating Reserve Provision for the period under audit:

	Old Rates	Revised Rates
Payment in Lieu of Taxes	\$ 5,487 44	\$ 9,636 00
Provision for Operating Reserve	16,060 00	12,848 00
Total	<u>\$21,547 44</u>	<u>\$22,484 00</u>

It will be noted that there was a net increase in expenses of \$936.56.

**Accounts Payable - Development - Project 200-1:** At the time of the original occupancy, salaries chargeable to the Administration Fund were paid from the Development Fund. In the process of reimbursing this fund, duplicate payments totaling \$315.70 were made. The accountant for the Authority stated that the necessary adjustment will be effected.

**Comprehensive Public Liability Insurance - Project 200-1:** Attention is directed to the fact that this insurance in effect was canceled by the direction of the State Housing Board as of July 27, 1953.

Subsequently insurance of a comparable nature and amount was obtained. It was noted, however, that this insurance which was formerly paid for at the rate of \$.756 per unit per year was billed under the new contract at \$4.51 per unit per year.

Replacement of Kitchen Tile - Project 200-1: Since the initial occupancy of this project in March 1951, it has become necessary to replace kitchen tile in all the units with linoleum. Contracts have been negotiated in the amount of \$13,319.00 for this work. It is understood that the cause of this condition was not due to either defective materials or improper installation, but apparently because the type of tile required in the specifications was not the proper type. It appears that the materials used as replacement has thus far proved to be satisfactory.

## WESTBOROUGH HOUSING AUTHORITY

REPORT NO. 54-H-67

New Executive Director: Attention is directed to the fact that Mr. Thomas F. Greene, Jr., was appointed the Executive Director for this Authority effective October 1, 1953. This examination included a review of the activities of his predecessor as well as a verification of the cash as of the date when Mr. Greene assumed this position.

Commonwealth Contribution: The Commonwealth may make an annual contribution of not more than 2 1/2% of the total net Development Costs. In this connection it was noted that this contribution for the fourth year under Permanent Financing was \$2,219.44 and was computed as follows:

2 1/2% of Costs	\$3,800 00
Less:	
Surplus Transferred to Reduction Reserve	<u>1,580 56</u>
	<u>\$2,219 44</u>

This amount was paid to the fiscal agent, the National Shawmut Bank of Boston in February 1954.

In this connection, however, it was noted that the Authority's records do not as yet reflect the receipt of this subsidy.

Comprehensive Public Liability Insurance: Attention is directed to the fact that this insurance which was in effect was canceled by direction of the State Housing Board as of July 27, 1953.

It was noted, however, that subsequently new policies were written for insurance of comparable coverage. In this connection this insurance which was formerly paid for at the rate of \$.756 per unit per year, was billed under the new contract at the rate of \$2.25 per unit per year.

Tornado Damage: On June 9, 1953, the tornado which struck Worcester County did a certain amount of damage to the roofs of the buildings in the project, as well as to a few doors and window panes.

Because of the then existing emergency a contract for the repairs was awarded to a local contractor and the total of the bills submitted by him for payment in this connection amounted to \$567.00. It is understood also that a portion of this amount will be recovered from insurance companies.

As a matter of information it is noted that this particular contractor is also a member of the Authority.

## NORTH ANDOVER HOUSING AUTHORITY

REPORT NO. 54-H-68

Operations under Permanent Financing: The records of the Authority reflected a surplus of \$2,330.70, after taking into consideration the maximum Commonwealth contribution of \$5,850.00, for its third fiscal year which ended on September 30, 1953. In accordance with the instructions of the State Housing Board, this surplus was disposed of in the following manner:

Transfer to Operating Reserve	\$1,312 38
Transfer to Contribution Reduction Reserve	<u>1,018 32</u>
	<u>\$2,330 70</u>



This Authority will also receive a subsidy of \$4,831.68 for the fiscal year ending September 30, 1954. This amount represents the maximum subsidy of \$5,850.00 less an amount reserved for contribution reduction purposes from the surplus of the prior fiscal year.

**Comprehensive Public Liability Insurance:** Attention is directed to the fact that this policy which was in effect was canceled by direction of the State Housing Board as of July 27, 1953. Subsequently a new policy was written for comparable insurance. However, it was noted that this insurance which was formerly paid for at the rate of \$.756 per unit per year, was billed under the new contract at the rate of \$1.87 per unit per year.

**Cash Balance:** As of the date of audit, the cash balance of the Administration Fund appeared to be somewhat in excess of what appeared to be its immediate cash requirements. It is suggested that some consideration be given to the possibility of investing part of this balance.

#### NEEDHAM HOUSING AUTHORITY

REPORT NO. 54-H-69

**Appropriated Funds:** It was noted that these funds were returned to the Town of Needham in the amount of \$3,388.85 as was suggested in the report of the previous audit.

**Dispute in Site Improvement Contract - Project 200-1:** As was noted in the previous audit report, a dispute had developed between this Authority and the Site Improvement Contractor involving various matters pertaining to the preparation of the project site. On May 6, 1953, the present Chairman of the State Housing Board reaffirmed the original decision of the previous Chairman. An informal opinion which was rendered by a representative of the Attorney General concurred that any further litigation in this matter would be of no avail. Thereupon the attorney for the Needham Housing Authority was instructed to terminate his preparation of this case. The latter has submitted an itemized bill for the preparatory phase of this case in the amount of \$1,509.50. It is understood that the Authority is negotiating a settlement of this fee with the attorney.

**Comprehensive Public Liability Insurance:** Attention is directed to the fact that this insurance formerly in effect was canceled by direction of the State Housing Board as of July 27, 1953.

Subsequently, insurance of a comparable nature and amount was placed with another company. However, it was noted that this insurance which previously had cost \$.756 per unit per year was billed under the new contract at \$1.87 per unit per year.

#### MILLBURY HOUSING AUTHORITY

REPORT NO. 54-H-70

**Financing:** This Authority is still in Temporary Financing and there is still outstanding its sixth series noted in the amount of \$315,000.00. These notes were purchased by Kuhn, Loeb and Company of New York at an interest rate of 6% with a premium of \$17,075.00 making a net rate of .6536%.

**Accounts Receivable - Filter Bed:** It was noted that the "Accounts Receivable - Filter Bed" with a balance of \$24,152.95 was settled for \$17,001.60. The difference was charged to Development Costs.

**Accounts Receivable - Tenants:** There were two delinquent accounts totaling \$110.50 on the books of the Authority as of February 28, 1954. One was owed by a former tenant who vacated owing \$79.50. Although this account was turned over to an attorney during the previous audit period, to date nothing has been collected on it.

**Comprehensive Public Liability Insurance:** Attention is directed to the fact that this insurance which was in effect was canceled by direction of the State Housing Board as of July 27, 1953.

It was noted, however, that subsequently new policies were written for insurance of comparable coverage. In this connection, this insurance which was formerly paid for at the rate of \$.756 per unit per year, was billed under the new contract at the rate of \$1.87 per unit per year.

**Painting of Project Dwellings:** During the past year all the dwellings were painted. It was seen that the contract for this work was awarded to the lowest bidder at a contract price of \$4,750.00.

**Permanent Financing:** In anticipation of this Authority's entering into Permanent Financing and because it is felt that this Authority will have a substantial surplus at that time, it is suggested that it might be advisable to give consideration to reducing the contemplated bond issue, rather than setting up a large reserve.

#### NAHANT HOUSING AUTHORITY

REPORT NO. 54-H-71

**Rent Receipts:** The previous audit report suggested that individual receipts be issued for all collections and that they be prepared when the collections are actually made. In this connection, it was noted that the receipts are still prepared in anticipation of rent collections and that when tenants make partial payments, the prepared receipt is not issued until the entire amount is collected. It is again advised that individual receipts be issued for all collections and that they be made out when the actual collection is made.

The audit of the used rent receipts indicated that several of the receipts which were included in the sequence used during the audit period were not available for examination. It is suggested that all receipts regardless of whether they are issued be retained in sequence.

**Cash Deposits:** A comparison of the dates of the bank deposits and the dates on the duplicate rent receipts indicated that the monthly rent receipts are not being deposited until the month following that when the rent was due and paid. It is suggested that the rental cash be deposited as soon as practicable.

**Tenants' Accounts Receivable:** As of the date of audit, the balance of the Tenants' Accounts Receivable control account was \$523.00 greater than the aggregate of the detailed accounts in the tenants' ledger. In this connection, it was noted that the variance was due to the failure to record \$520.00 of February receipts in the cash receipts book until March, and to cash shortages of \$2.50 in June 1953 and \$.50 in February 1954.

**Permanent Financing:** The operations of the Authority for the third fiscal year reflected a surplus of \$1,788.85 after taking into consideration the Commonwealth Contribution of \$2,478.35 and the Contribution Reduction of \$1,221.65 which had been reserved from the second fiscal year's surplus. This surplus of the third fiscal year will be used to reduce the Commonwealth Contribution for the fourth fiscal year.

**Comprehensive Public Liability Insurance:** It was noted that this insurance in effect was canceled by direction of the State Housing Board as of July 27, 1953.

Subsequently insurance of a comparable nature and amount was placed with another insurance company. However, this insurance which formerly cost \$.756 per unit per year was billed under the new contract at the rate of \$2.25 per unit per year.

#### IPSWICH HOUSING AUTHORITY

REPORT NO. 54-H-72

**Expenditures - General:** It was noted that certain vouchers for general repairs did not include a substantiating invoice from the individual performing the work. It is suggested that bills for all services performed for the Authority be requested before payment is actually made.

**Permanent Financing - Project 200-1:** The operations of this Authority for its third fiscal year under Permanent Financing, which ended on September 30, 1953, resulted in a surplus of \$799.40, after taking into consideration the maximum Commonwealth Contribution of \$6,800.00. It was understood that this Authority will again receive the maximum possible subsidy for the fourth fiscal year under Permanent Financing.

**Surplus - Temporary Construction Project:** The books of this project reflected a surplus of \$2,967.26 for the year ending December 31, 1953. This amount was remitted to the Town of Ipswich in March 1954.

**Rent Roll - Temporary Construction Project:** It was noted that the December 1953 rent charge to the Tenants' Accounts Receivable control account was \$6.00 in excess of the total of the respective charges to the individual accounts in the tenants' ledger. This variance was subsequently offset by an overdeposit of \$6.00 in February 1954. It is recommended that the necessary adjustments be effected forthwith.

**Comprehensive Public Liability Insurance:** Attention is directed to the fact that this insurance which was in effect was canceled by direction of the State Housing Board as of July 27, 1953.



Subsequently this insurance was replaced with protection of a comparable nature and amount with another company. It was noted, however, that this insurance which formerly cost \$.756 per unit per year was billed under the new contract at the rate of \$2.18 per unit per year.

## BROOKLINE HOUSING AUTHORITY

REPORT NO. 54-H-73

**Commonwealth Contribution:** The operating loss of this project for the fiscal year ended September 30, 1953 was \$55,046.05, before taking into consideration the maximum Commonwealth contribution of \$83,650.00. However, this contribution was reduced by \$9,554.13, the amount of the surplus reflected on the Authority's accounts for the 1952 year to \$74,095.87. After the receipt of the Commonwealth's contribution as reduced, this project will reflect a surplus for the fiscal year ending September 30, 1953 of \$28,603.95, and will be used as a reduction of the contribution for the ensuing fiscal year ending September 30, 1954. These reductions of contributions were approved by the State Housing Board, and the subsidy for 1954 has already been deposited with the fiscal agent in the amount of \$55,046.05.

**Payment in Lieu of Taxes and Operating Reserve:** On December 16, 1953, blanket instructions were issued by the State Housing Board affecting the payments in lieu of taxes to the cities and towns. At the same time it was also authorized to reduce the charges to the Operating Reserve from \$5.00 per dwelling unit per month to \$4.00 per dwelling unit per month.

At that time the payments in lieu of taxes were changed from 5% of the Net Dwelling Rent income to \$3.00 per unit per month and were made retroactive to the beginning of 1953. The excess over the amounts accrued what would have been paid on the original basis for 1953 was also to have been charged to the Operating Reserve account.

In this connection the directive stated in part:

"..... and serves to offset the increase in payments in lieu of taxes. By this means, the financial stability of the projects is not affected. No increase in tenants' rentals or in the amount of State aid is required."

From the foregoing it would appear that the reduction of these charges to the Operating Reserve account would normally offset the increase of allowances to the cities and towns for these payments. However, the records now indicate that the expenses of the Authority will increase in 1954, and as a result will reduce the surplus. This, will of course, have a direct effect on the reduction of the Commonwealth subsidy, and naturally the State aid required will be increased.

Attention is also directed to the fact that the Operating Reserves were being established on the basis of a maximum of \$300.00 per unit and was to have been achieved within a five year period.

In the majority of projects the maximum Operating Reserve is attained within a lesser period because of the fact that original credits, which had been established from the Operating profit during the Initial Operating Period were being applied.

This project went into permanent financing on October 1, 1951, at which time the credit applied to the Operating Reserve was \$41,000.00. On this basis the maximum would have been reached in August 1954. However, due to the charge to the reserve for the additional payment in 1953 and the reduction to \$4.00 per month per unit in accordance with the State Housing Board's directive, this maximum will not be reached until December 1954. As a result, all that was achieved was extending the charges to expenses and credits to the reserve account for only four months. Because both dates fall within the 1954 year, charges to expenses for Operating Reserve will be the same, while at the same time, the charges for payments in lieu of taxes will be substantially increased.

The payments in lieu of taxes for 1954 on both the new and former basis follow:

291 units @ \$3.00 per unit per month -	\$10,476 00
If the original basis was used - or	
5% of Shelter Rent = 1954 Budget	
Estimated Shelter Rent	\$142,100 00)
Less:	
Vacancy Loss	1,500 00)
Net	\$140,600 00)
Excess payment - New Basis over Old	<u>7,030 00</u>
	<u>\$3,446 00</u>

From the foregoing it must be acknowledged that because the charges to the Operating Reserve will remain the same in 1954 and the payments in lieu of taxes increased by \$3,446.00, that the Commonwealth contribution will be correspondingly increased and dispels the theory quoted in the State Housing Board directive of December 16, 1953, that no increase in State aid is required.

**Miscellaneous Income:** It was noted that the Miscellaneous Income account had been credited with \$64.80 that actually was not income. The credit was due to the following items having been credited in error to this account:

**A -** The accountant for the Authority received \$64.00 for Jury Duty. Having been paid by the Authority he refunded this amount. The amount refunded should have been credited to the 4100 - Management Expense account.

**B -** A deposit for rental collections in January 1954 was obviously \$.80 short and the shortage was made up by the accountant. This difference was due to a poorly written check as it cleared through the local bank as listed but in final clearing was noted to be that amount greater. The bank subsequently credited the Authority's account with this amount.

These items were brought to the attention of the accountant and it is understood that the required adjusting entries will be effected.

**Delayed Deposits:** It was noted that collections were not being promptly deposited in the bank. A test was made of three months collections and it was indicated that amounts occasionally running as high as \$1,200.00 had been held for periods of several days. It was further noted that \$130.40 collected on February 26, 1954 was not deposited until March 8, 1954, and the proper tenants' accounts were not credited until the latter date.

The importance of making daily deposits was brought to the attention of the authorities and it is understood such a practice has already been inaugurated.

**Discounts on Purchases:** It was noted that several invoices had been paid in full before the expiration of the discount periods. Several other invoices on which discounts should have been taken had also been paid in full. This matter was called to the attention of the personnel and henceforth all invoices will be examined so that advantage may be taken of all discount terms.

**Potential Rents and Tenants' Ledgers:** It was noted that rental income that had been properly established prior to the beginning of each month was not being recorded on the tenants' ledgers until the end of the month. In this connection charges and credits for collections were posted simultaneously at the close of the month. Rental adjustments were made on the potential basis and the adjusted net amount so established at the end of each month.

This practice is contrary to the method prescribed by the Manual of Accounts issued by the State Housing Board and the potential income loses its identity.

The proper procedure is to post the potential rents, as established, to the tenants' accounts and credit it to the income account. Subsequent adjustments due to move-outs, new tenants or changes in rent etc. would be made prior to the end of the month by direct journal entries.

The receipts should of course be posted as collections are made.

**Excess Utility Charges:** It will be noted from the Operating Statement for the year ending September 30, 1953 that the charges for utilities to the tenants was \$5,111.71 in excess of the actual charges. The excess charge is due to an arbitrary estimate established by the Authority and included in the monthly charges to tenants for utilities.

The excessive charge averaged \$17.56 per unit, based on total number of units, and would amount to approximately \$1.50 monthly to each tenant on an average basis.

**Compensation to Board Members:** The Members of the Board did not accept any compensation for their services during the audit period.

**Comprehensive Public Liability Insurance:** Attention is directed to the fact that this insurance in effect was canceled by direction of the State Housing Board, as of July 27, 1953.

Subsequently, insurance of a comparable amount and scope was purchased. It was noted, however, that this new insurance, which formerly cost \$.756 per unit per year, was billed under the new contract as follows:



Project 200-1  
Project 200-1A

\$6 32 per unit per year  
6 66 per unit per year

## FRANKLIN HOUSING AUTHORITY

REPORT NO. 54-H-74

**Commonwealth Contribution:** The Commonwealth's contribution for the fourth year under Permanent Financing will total \$7,000.00 minus whatever portion of the surplus that is transferred to the Reduction Reserve. The surplus for the third year was \$2,028.13. The Authority is awaiting instructions from the State Housing Board as to the disposition of the prior year's surplus.

**Comprehensive Public Liability Insurance:** This Authority was formerly insured for Comprehensive Public Liability. This policy, however, was canceled by direction of the State Housing Board as of July 27, 1953.

Subsequently, insurance of a comparable nature and amount was obtained. It was noted, however, that this insurance which was formerly paid for at the rate of \$.756 per unit per year was replaced with insurance which was billed under the new contract at \$2.25 per unit per year.

**Project Inspection:** In connection with the visual inspection of this project, it was noted that several dwellings appeared to be in need of painting. It was learned from the Executive Director that the Authority contemplates this painting during this current year.

**Capital Improvements:** The previous report commented that certain contract awards had been made for capital improvements and that there was still an unpaid balance of \$1,340.00. In this connection it was noted that the referred to improvements were completed and final payment was made in the amount indicated.

**Accounts Payable - Development:** The previous report commented that this account showed a balance of \$261.25 which was not actually represented by a liability and that it be accordingly adjusted. It was noted that this account was properly closed out.

## HULL HOUSING AUTHORITY

REPORT NO. 54-H-75

**Comprehensive Public Liability Insurance Rates:** It was noted that these insurance policies in effect for this project were canceled by direction of the State Housing Board as of July 27, 1953. These policies which had been paid for at the rate of \$.756 per unit per year were subsequently replaced with another policy of comparable amount and scope which was billed at the rate of \$1.87 per unit per year.

**Permanent Financing:** The records of this project reflected a surplus of \$2,098.58 after taking into consideration the Commonwealth Contribution of \$7,422.00 and the Contribution Reduction of \$703.00, for the second fiscal year under Permanent Financing. This surplus was transferred to the Reduction of Annual Contribution Reserve.

This Authority has received a subsidy of \$6,026.42 for its third fiscal year under Permanent Financing. This amount represents the maximum subsidy of 2 1/2% of the Certified Development Costs less an amount reserved for subsidy reduction from the surplus of the prior year.

**Charges for Gas:** The Authority purchases gas for cooking at a lower rate because of consolidated purchase for all 28 units. A flat rate is, however, charged to the respective tenants according to the number of rooms in their apartments. The previous audit report commented on this excess billing to the tenants and discussed the reduction of the rates to tenants.

It was noted in this connection that the utility company from whom the gas is purchased had incorrectly billed the Authority for the period between December 9, 1952 and June 9, 1953, because the supplier had not included the 10 pound pressure factor in computing its charges and as a result there was paid an excess of \$114.68.

It also now appears that the amounts collected from tenants for these charges will be approximately the same as the cost to the Authority.

**Purchasing Policy:** It was noted in one instance that the Purchasing Policy as stated in the Management Program was not being followed. Telephonic bids were obtained but not confirmed in writing even though the purchase was in the stipulated category between \$25.00 and \$150.00. It is recommended that such bids be henceforth confirmed in writing.

## NORTH ADAMS HOUSING AUTHORITY

REPORT NO. 54-H-76

**Debt Service Payments:** This Authority pays into its Debt Service Fund through its fiscal agent each year from rental income an amount, which together with amounts received from other sources, will equal that fiscal year's total debt requirements. The debt requirements for the fiscal year 1954 were computed as follows:

Bonds Maturing and Interest Payable		
June 1, 1954		\$35,137 50
Less:		
State Contribution	\$22,725 00	
Interest on Investment	425 34	
1/40 of Premium	438 57	23,588 91
Project Surplus		<u>\$11,548 59</u>

**Project Surplus:** It was noted that the project surplus from the first fiscal year of operations of \$5,623.92 was transferred to the Operating Reserve account.

**Sale of Surplus Land:** It was noted that this Authority sold a parcel of land to the City of North Adams for \$451.00. This amount was deposited in the Development Fund bank account but was credited to the Operating Reserve account of the Administration Fund. It is recommended that a transfer of this amount be made from the Development Fund to the Administration Fund to bring the accounts into agreement.

**Tenants' Selection:** In reviewing the tenants' selection files, the following was noted:

1. Insufficient data on family income and dependents to substantiate the rental charges to tenants.
2. The allowable deductions from gross income were not available.

It is recommended that the tenants' selection files be revised to include data to support the current rental charges paid the various tenants.

**Comprehensive Public Liability Insurance:** Attention is directed to the fact that this insurance in effect was canceled by direction of the State Housing Board as of July 27, 1953.

Subsequently insurance of a comparable nature and amount was obtained from another company. It was noted, however, that this insurance which formerly was paid for at the rate of \$.756 per unit per year was billed under the new contract at \$1.87 per unit per year.

## NORTH ATTLEBOROUGH HOUSING AUTHORITY

REPORT NO. 54-H-77

**Permanent Financing:** The records of the project, after taking into consideration the maximum annual Commonwealth Contribution of \$6,125.00, indicated a surplus of \$1,278.52 for the first fiscal year which ended on June 30, 1953. This surplus was transferred to the Operating Reserve on instructions from the State Housing Board. It is understood that the Authority will again receive the maximum subsidy in connection with its second fiscal year's operations.

**Accounting of Surcharges:** It was noted that the offsetting credit to the tenants' charges for excess utilities had been entered in the rental income account. Since the purpose of these charges is to reimburse the Authority for excess utility costs, it is suggested that the credit be applied to the Utilities account. In this manner the Utilities account will show the actual expense incurred by the Authority and not be inflated by amounts which must be paid by tenants.

**Insurance Adjustment:** It was noted that an insurance recovery for a fire loss in an amount of \$108.75 had been credited to the Insurance Expense account in June 1953. Since the expense of the fire damage repairs had been charged to the Repairs, Maintenance and Replacements account, this recovery should also have been credited to that account. It is suggested that this procedure be followed in the event that there are any such recoveries in the future.



**Certificate of Completion:** As of the date of audit, Part II of the Certificate of Completion of the development of the project had not yet been signed by both the Authority and the general contractor. This delay in signing is due to a difference of opinion regarding a change order deduction of \$300.00 because of failure to construct a hydrant.

**Income Cash:** The previous audit report commented upon the lengthy periods of time that the income cash had remained in the custody of the Executive Director. In this connection it was again noted that the income cash is still being held.

It is understood that the rents are generally collected evenings and during other spare time of the Executive Director. When he is working locally these receipts can be deposited promptly, but when he is working out of town the collections are held by him until such time as he can get to the bank during banking hours.

It is suggested that the Authority either avail itself of night deposit facilities or consider the possibility of having whichever member is in town making the deposit on behalf of the Executive Director.

**Excess Cash:** As of the date of audit, the balance of the Administration Fund cash totaled \$10,538.70. This balance would appear to be somewhat in excess of the immediate cash requirements of the Authority. It is, therefore, suggested that the advisability of investing a portion of this balance be considered.

**Rent Receipts:** The examination of the used rent receipts indicated that they had not been issued in numerical sequence. It is suggested that these receipts be so issued.

**Comprehensive Public Liability Insurance:** Attention is directed to the fact that this insurance which was in effect had been canceled by direction of the State Housing Board as of July 27, 1953.

Subsequently, insurance of a comparable nature and amount was obtained from another insurance company. However, it was noted that this insurance which formerly was paid for at the rate of \$.756 per unit per year was being billed under the new contract at the rate of \$1.87 per unit per year.

#### PLYMOUTH HOUSING AUTHORITY

REPORT NO. 54-H-78

**Contract for Architectural Services:** In a report of an examination of the accounts of the Plymouth Housing Authority issued on July 27, 1951, the following comment relating to this subject was included:

"This contract was examined and the percentages shown in the tables attached to the contract were applied to the final construction award. On this basis the resultant fee should have been \$12,945.97. The actual payments to the architect which were approved by the State Housing Board under date of August 23, 1950 totaled \$21,700.00, representing an overpayment of \$8,754.03. In this connection attention is called to the fact that the State Housing Board approval indicated a 5.62% rate for all structures. This is the A-Rate taken from Table I of the rates attached to the contract. Said A-Rate is defined as follows:

'The A-Rate applied to two story row houses and/or flats of not less than four family units in a single building and having a variation of not more than six different dwelling types in a single given project.'

"The following is taken from Table IV of the tables attached to the contract:

#### 'Single Family Houses and Duplex Houses Architect Fees:

The fees to be paid for complete architectural services in accordance with Part III, Article I of the contract shall be 10% of the proportion of a bona fide construction bid, as it involves structures allocable to:

- 2 units for projects up to 29 units
- 3 units for projects up to 39 units
- 4 units for projects up to 49 units

'5 units for projects up to 59 units  
6 units for projects of 60 units and larger

To this shall be added \$100.00 a unit for the remainder of the first 20 houses and \$50.00 a unit thereafter.'

"This project consists of 17 buildings, three of which are row houses of four apartments each and the other 14 are duplex houses. In accordance with the terms of the contract, it would appear that the A-Rate should have been applied to the row houses and the rates of Table IV to the duplex houses.

"It is therefore recommended that the State Housing Board recompute the architect's fee in accordance with the tables attached to the contract, and take immediate steps to attempt to collect the apparent overpayment."

This comment was repeated in brief form in the audit report issued on August 28, 1952 and again in the audit report issued on July 27, 1953.

On August 5, 1952 the then Chairman of the State Housing Board in a letter to the Chairman of the Plymouth Housing Authority advised him that the State Housing Board had computed the architect's fee, and that the payment to the architect had been \$8,754.03 in excess of the amount actually due. It will be noted that this amount agrees exactly with that which appeared in our previous audit report. Subsequently the present Director of the State Housing Board further verified this overpayment, as is evidenced by the following letter which he forwarded to the Attorney General on September 9, 1953:

COPY

STATE HOUSING BOARD

Management

September 9, 1953

TO: Attorney General  
FROM: Harland A. McPhetres, Director  
SUBJECT: PLYMOUTH 200-1 - CONTRACT FOR ARCHITECTURAL SERVICES

In State Auditor's Report #53-H-70 covering accounts of the Plymouth Housing Authority for the period April 30, 1952 to March 31, 1953, which was issued July 27, 1953, and also in the Auditor's Report for the previous year, a comment was made that an overpayment of \$8,754.03 had been made to the Architect with a recommendation that the State Housing Board recompute the fee and take steps to recover the excess payment.

There is a letter dated August 23, 1950 in our files signed by former Director Harold Robinson which authorized the local Authority to pay the Architect \$21,700 for his services, which included the noted overpayment.

While this audit was in progress this Board recomputed the Architect's fee and verified the overpayment of \$8,754.03 and under date of August 5, 1953 advised the Plymouth Housing Authority relative to the same.

The Auditor also stated in the above report that the Authority had not acted on this matter because the Chairman has taken the position that any action for the recovery of the overpayment should be undertaken by the State Housing Board.

Will you kindly inform this Board as to the proper procedure to be followed in order to collect the aforesaid overpayment.

(Signed) Harland A. McPhetres  
Director

Attention is directed to the fact that in this letter the Director did not request the opinion of the Attorney General on this matter, but merely asked the procedure to be followed to collect the overpayment, yet in response to this letter on November 25, 1953, the following informal opinion was rendered by the Assistant Attorney General assigned to the State Housing Board:



COPY

November 25, 1953

MEMORANDUM

TO: Harland A. McPhetres, Director

FROM: Assistant Attorney General

SUBJECT: Plymouth 200-1 - Contract for Architectural Services  
Auditor's Report No. 53-H-70

This is not a formal opinion of the Attorney General.

Your memorandum dated September 9, 1953, requests the advice of this office in regard to the proper procedure to be followed in regard to an alleged overpayment by the Plymouth Housing Authority of \$8,754.03 to the architect.

Said overpayment was made by authority of a letter to the Plymouth Authority dated August 23, 1950, signed by former State Housing Board Director Harold Robinson. The State Auditor's Reports for recent years have commented as to this overpayment.

Before advising your Board as to the proper procedure to be followed in order to collect the alleged overpayment, it is proper for this office to consider whether any such action is necessary by determining which computation represents a correct legal interpretation of the contract.

In this respect it is noted first that the final figures arrived at in both computations, as to site engineering and lawns and planting, differ by negligible amounts. The major difference is found in the computation of the fee for structures.

In an informal opinion of this office, dated November 17, 1952, wherein the same question of interpretation was involved in regard to the Architects Contract with the Gloucester Housing Authority, this office ruled that the fee for the architect's services should be based on the schedule of fees under Annex "B", table I. The same principles of law as to the interpretation of that contract are applicable to the contract now in question.

However, the case for such an interpretation of this contract is stronger even than it was in the case of the Gloucester contract. The Gloucester contract reads "... which percentage shall be determined from the table of fees attached hereto. Annex 'B'.", the reference to Annex "B" having been typed in at the end. The Gloucester contract was executed on the form adopted July 1, 1948. The contract form in question here was adopted July 27, 1949. It reads "... which percentage shall be determined from the appropriate Table of Fees attached hereto." The words "appropriate Table of Fees" have been erased and "Annex B, Title I" typed in in place thereof on this contract.

Application of this interpretation to the computation of the fee using the A-Rate results in a fee for structures equal to the fee approved by the former Director, Harold Robinson. The fee for structures, arrived at by the revised computation, was obtained by application of the method called for in the regular form contract which contained the words deleted in the instant contract "appropriate Table of Fees". This does not represent the method agreed upon by the parties when this contract was executed and therefore is incorrect.

It may be further noted that by the wording of Annex B the architect could successfully contend that he is entitled to the application of the B-Rate included under Annex B in which event he would be entitled to be paid 6.26 per cent of the bona fide bid involving structures instead of the 5.26 per cent actually paid.

However, since it is evident that the parties to the contract understood that the A-Rate was to apply and payment of the amount approved by the former Director of the Board was accepted by the architect, application of the A-Rate may be assumed to be correct.

The figure approved by the former Director is therefore the correct figure. There being no overpayment to the Architect, it is unnecessary to advise you as to the proper procedure to collect the aforesaid overpayment.

/s/

MIA:ecc  
Orig. to  
Chmn. S. H. B.

Assistant Attorney General

Attention is directed to the fact that in the section of the architect's contract which outlines the computation of his fee, the words "which percentage shall be determined from the appropriate Table of Fees attached hereto" have been erased and the words "Annex B, Title I" typed in their place in the State Housing Board copy, while the Authority's copy is also erased and reads "Annex B, Table I". The typing on both contracts clearly indicates that they were originally carbon copies, and the wording in both copies of the entire contract is entirely identical with the exception of the differences noted in these alterations.

It seems inconceivable that this Department in two successive audits and that two separate Directors of the State Housing Board, who examined the contract at different times with particular emphasis on the computation of fee, could have overlooked this obvious insertion if it had appeared on the contract at the time of these various computations. The net result of the alterations is to make payment of a fee applicable to this project which is entirely improper for this type of project. It is the position of this Department that this change was obviously made after the signing of the contract, to legalize the fee that had been paid, and that at the time the architect's fee was computed originally by this Department and checked later by the State Housing Board, the contract contained no such unusual provision.

If the Assistant Attorney General who gave the informal opinion on this matter had consulted with this Department, these facts would have been brought to his attention, and if he had made an exhaustive examination of the general facts of the matter, he would have noted other peculiarities in connection with this contract.

This architect's contract was dated July 26, 1949 and approved by the Chairman of the State Housing Board on August 10, 1949, whereas a time stamp appearing on one page of the contract indicates that the contract was not received at the State Housing Board until August 19, 1949. It is difficult to conceive that it could have been approved prior to its receipt.

In consideration of the fact that this contract was ostensibly approved by the Chairman of the State Housing Board on August 10, 1949, the fact that such approval had been made could not have been known to the Plymouth Housing Authority, who on August 11, 1949, according to their minutes, voted to delay entering into a formal contract with this same architect at that time.

It is requested that all of these facts be brought to the attention of the Attorney General and that a formal opinion be received from him as to the propriety of this payment.

**Operations under Permanent Financing:** The records of the Authority, after taking into consideration the Commonwealth Contribution of \$8,415.10 and the application of the prior year's surplus of \$2,759.90, reflected a surplus of \$2,801.36 for the third fiscal year's operations which ended on March 31, 1954.

**Charges to Accounts Payable - Development:** It was noted that costs of \$185.86 pertaining to the replacement of heaters had been charged to the Accounts Payable - Development account during February and March 1954. It was further noted that prior to that time such items had been properly charged to the Repairs, Maintenance and Replacements account. It is suggested that all charges be properly classified in order that proper comparisons might be made of the actual and budgeted operations.

**Working Capital:** As of the date of audit the balance of the Working Capital account amounted to \$67.02. Since there is no apparent need for this account, it is suggested that this balance be transferred to the Operating Reserve.

**Comprehensive Public Liability Insurance:** Attention is directed to the fact that this insurance formerly in effect, was canceled by direction of the State Housing Board as of July 27, 1953.

Subsequently, insurance of a comparable nature and amount was purchased from another company. However, this insurance, which was formerly paid for at the rate of \$.756 per unit per year was billed under the new contract at \$2.36 per unit per year.



## NORWOOD HOUSING AUTHORITY

REPORT NO. 54-H-79

**Comprehensive Public Liability Insurance Rates:** It was noted that the insurance policies in effect for this project were canceled by direction of the State Housing Board. These policies, which had been paid for at the rate of \$.756 per unit per year, were subsequently replaced with other policies of comparable nature and amount which were billed under the new contract at the rate of \$2.11 per unit per year.

**Permanent Financing:** The records of this project, after taking into consideration the Commonwealth's contribution of \$20,000.00 reflected a surplus of \$9,134.46 for the first fiscal year under Permanent Financing. This surplus was distributed as follows:

Transfer to Operating Reserve	\$3,809 46
Transfer to Reduction of Annual Contribution Reserve	5,325 00
	<u>\$9,134 46</u>

The Authority has also received a subsidy of \$14,675.00 for the second fiscal year under Permanent Financing. This amount represented the maximum subsidy of 2 1/2% of the certified development costs less \$5,325.00 which was reserved for the subsidy reduction from the surplus of the prior year.

**Architect's Fee:** The previous audit report stated that the architect had apparently been paid in excess of his approved fee as computed by the State Housing Board. It was further stated in that report, that this matter had been turned over to the Attorney General for an opinion.

In this connection it was noted that the architect had also been paid an additional \$1,252.00 during this audit period on the basis of the following letter from the State Housing Board:

COPY

## THE COMMONWEALTH OF MASSACHUSETTS

## STATE HOUSING BOARD

90 Tremont Street, Boston

July 8, 1953

....., Executive Director  
Norwood Housing Authority  
Municipal Building  
Norwood, Massachusetts

Dear Mr. ....:

Reference is made to your letter of April 30, 1953 with which you enclosed three copies of the Extracts of the Special Meeting held by your Authority on April 24, concerning the fee for Architectural services.

This office has reviewed the documentation submitted and is prepared to offer the Authority its opinion on the matter. This office will approve the resolution adopted by your Authority which provides for an unconditional release from the Architect similar to the attached form and one copy of this release should be returned to this office for filing.

Authorization to make payment to the Architect in the amount of \$1,252.00 is herewith granted subject to the securing of the release.

Very truly yours,

/s/ .....  
..... Director

Acting for and in Behalf of the Chairman

The following certificate of release was obtained:

COPY

I, ....., Architect for Washington Heights. State-aided Housing Development, Norwood 200-1, do hereby certify that the above total of \$1,252.00 represents the entire balance due me on my Contract for Architectural Services for Project Norwood 200-1.

In consideration of the payment to me of \$1,252.00, I do hereby release the Norwood Housing Authority from any and all claims arising over or by virtue of my Contract for Architectural Services.

In witness whereof, I have hereunto signed and sealed this instrument this 23 day of July 1953.

/s/ .....  
Architect

Witness:

/s/ ....., Chairman

**Appropriated Fund:** It was noted that the balance of \$634.66 remaining from the Town Appropriation Fund was recorded as part of the Development Fund. It is recommended that this amount be set up as an Appropriated Fund.

**Management Program:** It was noted that the Purchasing policy as stated in the Management Program was apparently violated. In this connection Section IV. paragraph b, states:

"All purchases and contracts involving a sum of not less than \$50.00 and not more than \$300.00 shall be made only after oral or telephone bids (confirmed in writing) have been obtained from at least three vendors or contractors."

In one instance the Authority contracted for the painting of the downstairs interior of an apartment for \$98.00.

It is recommended that in the future the purchasing policy as stated in the Management program be complied with.

**General Books of Account:** It was noted that several errors in addition had been made in the general ledger and check book.

It was further noted that the control account in the general ledger and the related tenants' accounts were not in agreement as of February 28, 1954, because of the following errors:

1. Incorrect rent rolls in August and December 1953, and January and February 1954
2. Cash shortages totaling \$45.00 in September 1953 and February 1954, due to errors in addition
3. Two posting errors - #10706J \$15.00 posted \$38.00  
#10983J 51.00 posted 41.00

It is recommended that more care be exercised in these matters in the future. Instructions were given to the proper personnel so that the necessary corrections could be effected.

**Hot Water Heaters:** Attention is directed to the fact that there has been a great deal of discussion with respect to hot water heating. It is understood that the tenants favor oil heaters because in their opinion they are more economical to operate, the Authority appears to believe that gas would be cheaper to obtain and also that the units would have a ten year guarantee, and the town officials tend to want electric heating because the Town of Norwood operates an electric light plant.

**Visit to Project:** This project was visited and the following conditions were noted:



1. The paint on parts of the buildings was blistering.
2. Touch up paint job was not blended in to the original paint job.
3. Painters missed some spots on one building.
4. One building was badly streaked.
5. One building was defaced with crayon marks.
6. On many buildings there are quite a few badly warped and cracked clapboards.
7. One lawn had a ditch dug across it.
8. Many broken windows in storm doors throughout project.

In connection with the necessary painting, it was noted that a contract was negotiated for \$6,500.40, dated September 26, 1953 and work was started on it in October 1953. During this audit period the contractor received \$3,250.20 on account and in March 1954 he received an additional \$3,050.20, leaving a balance due him of only \$200.00.

As it would appear from the foregoing first four items that the contract has not been satisfactorily completed, it would seem that a larger sum should have been retained.

#### MARLBOROUGH HOUSING AUTHORITY

REPORT NO. 54-H-80

**Profit:** The operating profit for the year ended December 31, 1953 was \$2,299.11, and was paid to the City of Marlborough on January 25, 1954.

**Tenants' Subsidiary Ledger:** A few errors were noted in the Tenants' Subsidiary Ledger. They would not have occurred had regular monthly comparisons been made with the control account. It was suggested that the trial balances of the tenants' ledger be prepared monthly and checked with the related control account.

**Bids on Installation of Showers:** It was understood that the project manager attempted to solicit prices for the installation of showers, but as a result only one concern sent a bid. Subsequently the contract was awarded to this concern.

**Land Rent:** The land on which the project is located is owned by a private party who originally leased it to the City of Marlborough in 1946 for a five-year period. At the expiration of this period, the owner refused to renew the lease and laid claim to all rents and buildings of the project. The Authority continued its land rental payments of \$320.00 per year, which the owner accepted. It is understood that the Authority contends that because the owner had accepted the rental fees, that it had in effect renewed the lease.

The Authority had planned to tear down the buildings as they became vacated; however, the owner obtained injunction against the City of Marlborough forbidding them to demolish the buildings.

The case is now in litigation and is awaiting adjudication by the courts.

It was further understood that the Attorney General has been made aware of the facts in this matter.

**Tenants' Accounts Receivable:** It was noted that the Tenants' Accounts Receivable outstanding as of the date of audit totaled \$572.45.

In this connection it is interesting to note that of this amount, items of \$231.25 and \$175.00 respectively are owed by two sons of the individual who owns the land. Both stopped paying rents to the Authority as of June 20, 1953.

The Authority has not brought any action against these tenants and it is understood that it is awaiting settlement of the case brought by the owner of the land, as mentioned earlier in this report.

In connection with the accounts receivable, the previous audit report commented on the large variance between the balances in the subsidiary accounts and that in the related controlling account. It was noted that this variance was adjusted through the "Reserve for Accounts Receivable" account.

## WEBSTER HOUSING AUTHORITY

REPORT NO. 54-H-81

Commonwealth Contribution: The Commonwealth may make an annual contribution of not more than 2 1/2% of the development costs of a project. This contribution to this Authority for the third year under Permanent Financing, it is anticipated will be \$6,176.80, computed on the following basis:

2 1/2% Development Cost	\$7,850 00
Less:	
Prior Year Surplus to be Transferred to Reduction Reserve	<u>1,673 20</u>
	<u>\$6,176 80</u>

This contribution will be paid to the fiscal agent of the Authority, The Second National Bank of Boston, on or about June 15, 1954.

Comprehensive Public Liability Insurance: This Authority was formerly insured for Comprehensive Public Liability under a policy which was canceled by direction of the State Housing Board as of July 27, 1953.

Subsequently, insurance of a comparable nature and amount was obtained. It was noted, however, that this insurance which was formerly paid for at the rate of \$.756 per unit per year was replaced with insurance which was billed under the new contract at \$2.50 per unit per year.

Payment in Lieu of Taxes: Payments made to municipalities in lieu of taxes are now being computed on a different basis by direction of the State Housing Board. Under this arrangement the tax is computed at \$3.00 per unit per month, whereas formerly, this tax was computed on the basis of 5% of the rental collections. For the 1953 year, the taxes on the new basis were \$378.01 more than if they had been computed on the former basis as follows:

New Basis \$3.00 Per Unit, Per Month	\$1,080 00
Old Basis 5% of Rental Collections	<u>701 99</u>
Increased Payment Because of New Policy	<u>\$378 01</u>

For the first quarter of the 1954 year the tax on the new basis is \$270.00, whereas, under the former policy it would have been \$172.75. It is obvious, therefore, that the 1954 tax under the new rate will undoubtedly again exceed the tax under the old rate for the entire year.

In view of the foregoing, because the tax expense has been increased, it naturally follows that the surplus will accordingly be reduced, thereby reducing any regular transfer to "Reduction of Annual Contribution Reserve", which will cause the contributions from the Commonwealth to be correspondingly increased.

Utility Rent: It was noted that the utility rentals which are based on the number of bedrooms have not been reviewed recently. It was learned, however, that an adjustment is being contemplated in the near future with regard to those tenants who are expected to pay surcharges, but it is not expected to make such an adjustment at this time to those tenants who have rebates due them.

This matter was discussed with the Executive Director to whom it was suggested that all adjustments be made simultaneously, as there is no apparent reason why those tenants who have rebates due them should be permitted to wait until surcharges found owing are collected.

In this connection it was also suggested that it might be advisable to dispose of the utility poles and other utility equipment to the utility company at a fair market value. This will avoid utility rents and the extra clerical costs which should reasonably be paid by that concern. Authority for the sale of utilities is provided under Subdivision (g) of Chapter 508 of the Acts of 1953.

Accounts Receivable - Tenants: It was noted that the Accounts Receivable outstanding from tenants as of March 31, 1954 was \$271.10. This condition indicates a considerable improvement over that noted at the time of the previous audit.

Accounts Payable - Development: It was noted that this Accounts Payable balance outstanding as of March 31, 1954, includes an item of \$1,018.42 for which no liability actually exists. The larger part of this amount apparently originally set up in anticipation



of building a fence. The balance represents a liability for Income Tax Withholdings during the Development period.

It is suggested that these items be adjusted immediately.

**Project Inspection:** During the visual inspection of exterior of the project, it was noted that a few doors were damaged apparently beyond repair. This damage was attributed mainly to carelessness in not properly closing the doors and thus permitting the wind to slam and batter them.

#### BRAINTREE HOUSING AUTHORITY

REPORT NO. 54-H-82

**Comprehensive Public Liability Insurance:** Attention is directed to the fact that this insurance in effect was canceled by direction of the State Housing Board as of July 27, 1953.

Subsequently insurance of a comparable nature and amount was purchased from another company. It was noted, however, that this insurance which formerly had been paid for at the rate of \$.756 per unit per year was billed under the new contract at the rate of \$1.87 per unit per year.

#### MATTAPOISETT HOUSING AUTHORITY

REPORT NO. 54-H-83

**Commonwealth Contribution:** During this audit period a subsidy contribution amounting to \$2,426.49 was received for the fourth fiscal year under Permanent Financing ending September 30, 1954.

**Ineligible Tenants:** In a review of the financial records of the tenants it was indicated that three appeared to be ineligible during this audit period for continued occupancy because of excessive income. In this connection it was noted that one has requalified for such occupancy because he is no longer employed on a full-time basis. The other two are paying the maximum rent and are being permitted to continue as tenants pending the receipt and acceptance of new applications.

It was noted that those tenants who were found ineligible on this basis in connection with the previous audit were subsequently replaced by eligible tenants.

**Delay in Acceptance of Project:** It was noted that a litigation in relation to this contract was settled with the payment of \$7,500.00 representing the balance of the contract, by the Housing Authority to the Peerless Casualty Company, the assignee of the contractor. It is understood that the final acceptance of this project is scheduled to be acted upon at the next meeting of the Authority and it is expected that the date of acceptance will be retroactively as of November 23, 1953.

**Comprehensive Public Liability Insurance:** Attention is directed to the fact that this insurance formerly in effect was canceled by direction of the State Housing Board as of July 27, 1953.

Subsequently insurance of a comparable nature and amount was purchased. It was noted, however, that the new insurance which was formerly paid for at the rate of \$.756 per unit per year was billed under the new contract at the rate of \$1.87 per unit per year.

#### MANSFIELD HOUSING AUTHORITY

REPORT NO. 54-H-84

**Bank Deposits:** It was noted that a considerable length of time, and on occasions approximately a month was allowed to elapse between the time monies were received and actually deposited in the bank. This practice can lead to complications and should be halted at once. All such cash should be deposited within a reasonable period.

It is also suggested that all items of receipt be identified on the bank deposit slips so that they may be traced if necessary.

**Cash Receipts:** It has been the practice to record collections on account of rents in the cash book as the money is deposited in the bank rather than when it is actually received. Cash items should of course be recorded in the cash book as received.

**Checks:** It was noted that checks are now signed only by the Executive Director. It is suggested that all checks also be countersigned by the Treasurer of the Authority.

**Development Accounts Payable:** It was noted that items of Development Accounts Payable totaling \$519.14 were paid from the Administration Fund. The necessary adjustment should be effected forthwith.

**Tenants' Accounts Receivable Ledger:** Attention is directed to the fact that this folio has not been properly maintained and as a result it was determined to be impractical to take a trial balance of it as of March 31, 1954.

In this ledger it appears that the rent for any month is paid when due regardless of the date of actual payment. In this connection many instances were noted where rents had been paid in months prior and subsequent to due dates.

It was further noted that approximately 16% of the rent receipts did not show dates of payment.

It is recommended that a new Tenants' Accounts Receivable Ledger be set up beginning April 1, 1954, which will reflect the correct balances and which will at all times be in reconciliation with the comparable general ledger control account.

**Tenants' Accounts Receivable:** It appears that no real attempt has been made to collect two small delinquent rent balances due from tenants who are still living in the project. These accounts have been outstanding for more than two years.

**Delinquent Tenants' Accounts Receivable:** The monthly report to the State Housing Board, dated February 28, 1954, indicated that there were no outstanding accounts due as of that date. However, the balance reflected by the control in the general ledger as of that date was \$628.64. In this connection it was noted as of March 31, 1954 that the Authority reported \$47.50 in delinquent accounts receivable, whereas the general ledger control account indicated \$340.64. These reports should at all times be in agreement with the records and it is suggested that more care be henceforth taken in their preparation.

**Rental Charges:** An examination of the Tenants' records indicated that a redetermination of rental charges had been made in May and June 1953. It would appear, from the information available, that proper rental charges are being made. In the case of one tenant, however, it was impossible to check his status, as his folder contained no information.

**Minutes of Meetings:** The previous audit report stated in this connection:

"It is again noted that there were very few formal minutes of the meetings signed by the Secretary of the Authority. In the majority of instances only rough notes of the meetings were available."

This situation still exists and no corrective action has been taken. The minutes of the meetings for the current audit period are still in a very informal condition. The question is raised whether or not formal minutes could be written from these notes, because in many instances it is not indicated what action was taken on specific motions.

It is therefore urged that steps be taken to take care of this most important matter.

**Comprehensive Public Liability Insurance:** Attention is directed to the fact that this insurance formerly in effect was canceled by direction of the State Housing Board as of July 27, 1953.

Subsequently other insurance of a comparable nature and amount was obtained. However, this replacement insurance which had been paid for at the rate of \$.756 per unit per year was billed under the new contract at the rate of \$1.87 per unit per year.

**General:** It is recommended that the State Housing Board be requested to survey the present accounting records for the purpose of improving their efficiency, etc. At present these records are not being maintained on sound bookkeeping principles.

WEYMOUTH HOUSING AUTHORITY

REPORT NO. 54-H-85

**Purchase of Materials, Supplies or Work:** Attention is called to the fact that this Authority has not strictly adhered to the purchasing policies as outlined in its Management Program. In this connection, this program states:

"b. All purchases and contracts involving a sum of not less than \$50.00 and not more than \$300.00 shall be made only after oral or telephone bids (confirmed in writing) have been obtained from at least three vendors or contractors.



"c. All purchases and contracts involving a sum in excess of \$300.00 shall be made only after invitations for bids have been publicly advertised or have been mailed to not less than three qualified vendors or contractors."

However, the following items were contracted for without first obtaining competitive bids:

- a. One Walnut Conference Table; six Walnut Finish Arm Chairs, Ginger Brown Upholstery; and one Walnut Finish Telephone Table at a total cost of \$520.50
- b. The construction and installation of meter covers as follows:

8 - 6 sections cover  
24 - 4 sections cover  
1 - 3 sections cover  
1 - 2 sections cover

at a cost of \$174.00

- c. An electric waxing machine at the cost of \$54.47
- d. Items aggregating \$1,738.99 were purchased from one paint store
- e. Fuel oil for the Administration Building at a cost of \$134.70

It was further noted that although the State Housing Board had authorized the purchase of an electric water cooler after reviewing the bids submitted from a firm for \$199.50, this Authority disregarded it and purchased a water cooler from the same firm at \$253.50.

It is strongly recommended that in the future this Authority adhere more closely to the purchasing policy of its Management Program.

**Mileage Allowance:** It was noted that the Executive Director received six cents a mile for the use of his personally owned automobile while on Authority business, while the members of the Authority received ten cents a mile plus parking fees for the use of their privately owned automobiles. It is suggested that such mileage be reimbursed to all concerned on a consistent basis.

**Addition to Project Office Building:** It was noted that Change Order Number 11 was authorized in the amount of \$12,987.28 for the building on of a room 20 feet 10 inches by 21 feet in this building. It was also noted that Change Order Number 23 at \$635.09 was for additional work such as Door Cut, Black Top Driveway and to refinish a portion of existing office area to match new addition.

**Annual Verification of Tenants' Incomes:** Under the provision of Chapter 200 of the Acts of 1948, as amended, tenants' rentals are based on their respective incomes and/or family status. Such income is originally verified prior to occupancy. Subsequently, annual verification should be arranged, in accordance with administrative orders from the Chairman of the State Housing Board, in order that there be compliance with the provisions of this statute with respect to the continued eligibility of tenants and to ascertain that they are paying proper rentals.

In this connection it was noted that an annual verification was started on December 1, 1953 and completed on January 4, 1954, and in that connection it was learned that thirteen families were ineligible because of excess income.

**Cost of Land:** It was noted that this item is still the subject of a legal dispute and it is understood that it will be tried in the Supreme Judicial Court sometime in May 1954. It was further noted that this Authority and the former owner of the land for Project 200-1A are still in arbitration regarding the selling price of this land.

**Visit to Project:** Project 200-1 was visited in connection with this audit and the following conditions were noted:

The paint on all exterior surfaces is badly blistered, peeling, and rust spots are appearing from the nails. This was apparently caused by the fact that the nails were not countersunk and putty was not used to fill openings. This matter was mentioned in a previous audit report, but to date no action has been taken on it.

It was noted on Building No. 42 that no covers were on five breather holes.

**Comprehensive Public Liability Insurance:** Attention is directed to the fact that this insurance formerly in effect was canceled by direction of the State Housing Board as of July 27, 1953.

Subsequently, insurance of a comparable nature and coverage was obtained. However, this insurance which had cost \$.756 per unit per year was billed under the new contract at \$1.76 per unit per year.

#### FALMOUTH HOUSING AUTHORITY

REPORT NO. 54-H-86

**Sale of Salvage:** It was noted that salvageable parts of old hot water heaters, which were replaced during the 1953 fiscal year, were sold to a Boston firm for \$175.00. It appears that permission to sell this scrap was neither sought nor received from the State Housing Board. It was noted, however, that oral bids were requested from two local dealers but none were apparently submitted because of lack of interest.

**Operating Reserve:** This account was charged with \$1,324.73 as of December 31, 1953, apparently as the result of replacing the hot water heaters without sufficient funds available in the budget. It was noted that approval for this entry was obtained from the State Housing Board by telephone. It is suggested that future entries of this sort should not be made until written approval has been obtained from that agency.

**Sewerage Filter Beds:** The previous audit report commented that this Authority had brought legal action against the original contractor and his bonding company for indemnification because of failure to comply with the terms of the filter bed contract in accordance with its plans and specifications. As of this date, this matter is still pending.

In this connection it was also noted that the sewerage modification work had been completed by another contractor to the satisfaction of the Authority and that final payment had been made.

**Comprehensive Public Liability Insurance:** Attention is directed to the fact that this insurance which was in effect was canceled by direction of the State Housing Board as of July 27, 1953.

Subsequently, insurance of a comparable nature and amount was arranged. However, it was noted that this insurance which formerly cost \$.756 per unit per year was billed under the new contract at the rate of \$1.87 per unit per year.

#### BARNSTABLE HOUSING AUTHORITY

REPORT NO. 54-H-87

**Local Fund:** It was noted that there had been received \$1,306.00 from the Town of Barnstable in 1949 for preliminary expenses of the Authority. As of the date of audit the balance in this fund was \$373.32 and during the audit period a disbursement of \$343.35 for office equipment had been made.

**Project 200-1 - Tenants' Ledger:** The previous audit report commented that the detail in the tenants' ledger was not in agreement with the related control account in the general ledger.

In this connection an effort was made to take a trial balance of the tenants' ledger and it was noted that the individual tenants' accounts were in excess of the general ledger control account.

It is again advised that the tenants' ledger be in agreement with the control account at all times.

**Project 200-1 - Final Payment to the Contractor:** It was noted that Part II of the Certificate of Completion had been processed and the final payment was made to the contractor during the period under audit.

**Project 200-1 - Payment in Lieu of Taxes:** It was noted that there was a payment to the Town of Barnstable in lieu of taxes amounting to \$885.78 for the year ending December 31, 1953.

However, a directive of the State Housing Board, dated December 16, 1953, directed local Authorities to make payments in lieu of taxes on the basis of \$3.00 per dwelling unit per month for the calendar year 1953 and on this basis this payment would have amounted to \$1,440.00.



It was noted, however, that no additional payment to conform with this directive had been made to the date of audit.

Project 200-1 - Comprehensive Public Liability Insurance: Attention is directed to the fact that the insurance in effect in July 1953 was canceled by direction of the State Housing Board as of July 27, 1953.

Subsequently, insurance of a comparable nature and amount was purchased. It was noted, however, that this insurance which formerly cost \$.756 per unit per year was billed under the new contract at the rate of \$1.87 per unit per year.

Project 200-1 - Disposition of Surplus: While this audit was in progress the Authority was advised by the State Housing Board to transfer to the Operating Reserve the Surplus for the year ending December 31, 1953 in the amount of \$2,375.71.

Project 200-1 - Commonwealth Contribution: During this audit period the Authority either received or had been officially advised of annual contributions by the Commonwealth as follows:

<u>For the Fiscal Year Ending</u>	<u>Maximum Contribution</u>	<u>Amount of Contribution Authorized</u>
December 31, 1953	\$9,300 00	\$9,300 00
December 31, 1954	9,300 00	9,300 00

General - Pay Roll Deductions: It was noted that beginning with January 1953 deductions for Social Security taxes had been made from the salaries and wages of employees.

However, only the net payment had been charged against the Management Expense and no provision had been made for the aforementioned deductions.

The total deductions to the date of audit for the two projects were as follows:

Temporary Construction Projects	\$ 9 88
Project 200-1	30 59

In this connection correspondence on file indicated that the Authority had taken official action to have its employees included under the provisions of the Social Security Act.

Temporary Construction Projects - Sale of Buildings: During the period under audit the remaining four buildings together with equipment were sold after competitive bidding for \$471.00.

Temporary Construction Projects - Final Accounting: It was noted that this Authority paid \$1,200.00 to the Town of Barnstable during the period under audit.

The books of this project have not been closed since December 31, 1951.

It is understood that the Authority will close all financial records and make a final accounting of this project to the Town of Barnstable in the very near future.

HOLYOKE HOUSING AUTHORITY

REPORT NO. 54-H-88

Federal Projects: The financial records of the Federal Projects Mass. 5-1 and Mass. 5-2 were not examined in connection with this audit. Although this Authority has financed these projects, it receives a subsidy from the Federal Government under Public Laws 671 and 412. Because of this, the projects are subject to regular audit by the auditors assigned by the Federal Public Housing Administration.

Chapter 372 - Subsidy: Under the provisions of Chapter 372 of the Acts of 1946, as amended, the City of Holyoke is entitled to receive a subsidy of 10% of the actual development costs of the local project, payable at the rate of 2% per annum for a period of five years. As of the date of audit the City of Holyoke had received in this connection a total of \$55,059.20, the maximum subsidy permissible, representing five payments of \$11,011.84 each. The payments were based on the total development costs of \$550,591.81.

Chapter 372 - Sale of Houses: The sale of the 62 dwelling units, as provided by Chapter 372 of the Acts of 1946, as amended, is now being processed. Options have been granted on all these units and while this audit was in progress 7 were sold.

The proceeds were turned over to the City of Holyoke, and sales prices of these were approved by this Authority and the State Housing Board.

It now appears that the City of Holyoke may lose between \$40,000.00 and \$60,000.00 on these houses. The actual loss, however, cannot be determined until all sales have been completed and the records adjusted and closed.

#### Project 200-1

**Debt Service Payments:** The Holyoke Housing Authority pays into its Debt Service Fund each year from: rental income an amount which together with amounts received from other sources equals that fiscal year's total debt requirement. The debt requirement for the 1954 fiscal year was computed as follows:

Bonds Maturing and Interest		
Payable January 1, 1955		\$73,872 50
Less:		
State Contribution	\$17,044 94	
Contribution Reduction	31,005 06	
Interest on Investment	542 50	
1/40 of Premium	858 23	49,450 73
Project Share of Debt Requirement		
Due 11/1/54		<u>\$24,421 77</u>

**Commonwealth Contributions:** This Authority has received to date, as provided in its Contract for Financial Assistance with the Commonwealth, subsidy payments in the amount of \$68,282.80. It will also receive in June 1954 a third subsidy payment on the amount of \$17,044.94. These subsidy payments represent the Commonwealth's participation in maintaining low rents as follows:

<u>Year</u>	<u>Amount of Subsidy</u>	<u>Commonwealth's Share per Tenant per Month</u>
1952	\$48,050 00	\$18 29
1953	20,232 00	7 70
1954	17,044 94	6 49

**Development Fund Cash:** This Authority still has a cash balance in its Development Fund in the amount of \$8,077.87. The records also indicate accounts payable in that fund in the amount of \$6,040.96. It appears, however, that as of the date of audit all outstanding Development Fund accounts payable had been paid. In this connection it was noted that while transferring from temporary financing to permanent financing as of January 1, 1952, the amount of cash to be transferred to the Administration Fund was erroneously understated by \$2,036.91, and has never been corrected. It is therefore recommended that this Authority close out these Development Fund balances to Management Accounts as follows:

To Administration Fund	\$2,036 91
To Working Capital	6,040 96
	<u>\$8,077 87</u>

**Comprehensive Public Liability Insurance:** Attention is directed to the fact that this insurance in effect was canceled by direction of the State Housing Board as of July 27, 1953.

Subsequently, insurance of a comparable nature and amount was obtained from another company. It was noted, however, that this insurance which formerly was paid for at the rate of \$.756 per unit per year was billed under new contract at \$1.23 per unit per year. To date this new insurance bill has not been processed for payment by the Authority.

**Bonds and Coupons Paid Memorandum Register:** It was noted that this Register, which should list all canceled bonds and coupons received from the fiscal agent, in accordance with a directive from the State Housing Board in its letter of Instruction No. 14 dated July 21, 1953, was not properly functioning. It is advised that such a Register be established.



**Payment in Lieu of Taxes:** It was noted that this Authority had accrued \$13,170.29 as of December 31, 1953, for payment to the City of Holyoke in lieu of taxes. To date, however, no payment has been made. It is recommended that this Authority process this payment to the City and that such payments be made annually.

# BOSTON HOUSING AUTHORITY

REPORT NO. 54-H-89

**General - Cash Balances:** It was noted that occasionally when rent collections for more than one project were made in the same office, they had been deposited in the same bank account. This practice is, of course, contrary to the terms of the Contract for Financial Assistance, which states that such funds must be respectively deposited in an accepted depository. In this connection, attention is directed to the fact that although the banks in which these deposits were made were accepted depositories, they had not been so accepted for consolidated deposits.

This practice was corrected to a great extent during this audit period. There are, nevertheless, still two projects, 200-1 and 200-8, where such collections are made for the State and Federal Projects. Although separate deposits are made daily to the credit of each project, the funds during the day were not segregated.

**General - Amortization of Note Premiums:** It was again noted that premiums received on notes issued for projects during the development period were not being amortized in accordance with accepted accounting practices.

It was further noted that the related interest was being properly accrued, but because the premiums had not been amortized, the financial status at any particular time could not possibly be accurately reflected. On April 30, 1954, the differences resulting because these premiums had not been amortized created understatements in the development costs of the following projects:

Project 200-8	\$206,299 96
Project 200-10	46,574 36
Project 200-11	75,991 25
Project 200-12	89,554 03
Project 200-13	224,506 27
	<u>\$642,925 87</u>

**General - Central Office Fund:** There is maintained a fund, known as the "Central Office Fund" which is used mainly for the clearance of board members' compensation, the clearance of personal travel expenditures by the respective members and unusual or miscellaneous expenditures not ordinarily acceptable as direct charges to the various projects.

This account was analyzed for the period of audit and the cash accounts were reconciled. Statements were prepared reflecting the activity within the account. In this connection it was noted that an account payable in the amount of \$6,085.00 had not been brought on the books as of April 30, 1954. This item represented payments made from the funds of project 200-1 and included compensation paid to the board members for the months of January, February and March 1954. It was noted that the appropriation for the members' compensation was received from the City of Boston in April 1954. However, the refund to project 200-1 was not effected until May 1954.

**General - Project Office Cashiers:** Attention is again directed to the fact that the cashiers of the various projects are apparently responsible for the posting and proper control of the detailed tenants' ledger cards, and in this connection they submit each month a summary of all transactions in these accounts to the central office where it is used as a posting medium to the general ledger control accounts.

These cashiers are classified, for pay roll purposes, as management personnel and come under the direction of the Supervisor of Management. It is therefore again suggested that consideration be given to having their supervision come under the direction of the Chief Accountant of the Authority.

**General - Tenants' Accounts Receivable:** In checking the Tenants' Accounts Receivable of the several projects, it was again noted that many balances have been outstanding for more than one year and appear to be uncollectible. Many of these accounts are in the hands of the Authority's legal department for collection, but there has been very little activity with respect to collection during this audit period. It is therefore again suggested that those accounts which are classified as doubtful be transferred to a "suspense"

account receivable account and those actually determined to be uncollectible should be charged against the reserve which was established for such items. As a result, more accurate balances will be shown.

**General - Rental Basis:** According to the instructions from the State Housing Board, rents charged should be reviewed each year and adjusted in accordance with income or dependency.

It was noted that the practice of reviewing incomes and dependencies has not been followed by this Authority and therefore changes occasioned by increased incomes have not been effected.

While this audit was in progress, an investigation was being made by authorized personnel which would make current incomes the basis for rent charges. Furthermore, it is understood that changes will be made in some of the projects and the percentage of income applicable as a rental charge will probably be lowered. In this connection, it is anticipated that the increase of incomes will more than offset the percentage decrease, so that actually the net collections from dwelling rents will be greater.

**General - Revolving Fund - Pay Roll Account:** Attention is directed to the fact that this audit was considerably delayed because records were not properly maintained. It was noted that the distribution of expenses had not been reconciled with the totals each month, and in several instances the distribution columns were not footed indicating that they had not been checked in detail against the charges to the various projects.

In connection with the cash reconciliation of this account, it was further noted that several checks which appeared as outstanding, and which appeared to have been issued to an employee, were actually being held in the office. It was learned that there had been a question as to whether this employee was actually entitled to his salary over an extended period, and it had been decided to request reimbursement from him. As a result, subsequent salary checks totaling \$1,056.45 were being held to apply against this reimbursement. In addition to these salary checks in the office, there were three other unendorsed checks totaling \$209.86 and currency in the amount of \$123.10. These three items which total \$1,389.41 represent complete reimbursement for the period in question.

This employee is no longer connected with the Authority and steps should be taken to close this account. It is suggested that authority should be obtained to stop payment on the outstanding checks and to obtain necessary endorsements for the other checks. These items together with the cash should be credited to the proper accounts.

It was noted that the salary checks referred to were dated from December 1952 to July 1953.

**Temporary Construction Projects:** At the inception of this audit, there were only five tenants residing in the temporary projects. However, all such units had been vacated prior to the close of the audit.

The buildings have not been disposed of as yet, but it is anticipated they will be sold in the near future, and this account will then be liquidated.

**Tenants' Accounts Receivable - Temporary Projects:** It was noted that the tenants' accounts receivable for these projects was quite large and it is very doubtful that any substantial part of these accounts will ever be collected. It is understood, however, that it is planned to make an intensive effort to collect these items prior to the closing of this account and the final settlement with the City of Boston.

**Disposition of Income:** It was noted that a payment had been made to the City of Boston on account of the Chapter 372 projects in the amount of \$20,687.67, thereby reducing the account payable to those funds of \$22,000.00. This payment included operating profit for the year 1953 of \$20,147.24 and a charge to the Vacancy Loss Reserve in the amount of \$540.43.

**Account Payable to Chapter 372:** This account payable in the amount of \$22,000.00 is the balance of the advances made from Chapter 372 funds in the original amount of \$65,251.62. This item had been reduced by transferring the operations surpluses of 1952 and 1953 in the respective amounts of \$22,563.95 and \$20,687.67. This liability will doubtless be assumed by the City of Boston as there will be no further income from Title V properties than that from the sale of remaining huts. It was also noted that the project indicated an operating loss for the period January 1, 1954 to April 30, 1954 of \$1,152.28.



Chapter 372 - Permanent Construction: It was noted that the development costs as reflected by the records of the Authority were not in agreement with the basis of the subsidy as computed by the State Housing Board.

It was learned that these variances were occasioned by charges made to development costs which have not been approved by the State Housing Board. These items were on the following projects:

River Street Addition	\$ 900 00
Arborway and Morton Street	163 62
Jamaicaway	1,127 50
Morton Street and Lenoco Road	159,075 09
Mount Vernon Street - (Cow Pasture)	4,573 30
	<u>\$165,839 51</u>

It is also suggested that the last item on the foregoing listing in the amount of \$4,573.30 should be transferred to project 200-13 as it is now a state project in the development stage.

Distribution of Development Costs: It was further noted that the following had not been properly distributed:

General	\$213,787 99
River Street - General	8,085 27
Road and Utilities - River Street Projects	451,891 17
	<u>\$673,764 43</u>

The first item should have been distributed among all the Chapter 372 projects and the other two should have been distributed over the River Street Projects.

These items were discussed in the previous audit report, but no action has been taken as yet.

Inasmuch as several of the units in these projects are being sold, it is most important that respective true costs be established, and it is therefore urged that immediate steps be taken to effect the necessary adjustments.

Sale of Houses: Attention is directed to the fact that the houses of the River Street Projects are now being offered for sale. Prior to the completion of this audit, four such sales had already been consummated and agreements have been negotiated for approximately 100 more. These agreements also include a deposit of \$100.00 with an option to buy after estimate, appraisal, etc. It was noted, however, that the agreements were apparently not binding and the deposit was refundable upon request.

It was noted that sales of four two-family houses have been made to date, as follows:

One of Three Bedrooms in Each Unit	\$16,400 00
One of Three Bedrooms in Each Unit	14,500 00
One of Two Bedrooms in Each Unit	13,900 00
One of Two Bedrooms in Each Unit	15,000 00

The records indicate that these houses were constructed at an average cost of \$23,599.61 after taking into consideration the charges which had not been properly distributed which are shown in an earlier comment in this report.

As a matter of information, it is mentioned that the order of preference for those wishing to purchase the houses was established as follows:

- First - Tenants of Occupance - (Tenants of longer lease having first preference)
- Second - Other Tenants throughout the project
- Third - Other Veterans
- Fourth - All Others

Administration Expenses - Management: It was noted that the Management Account expenses had considerably increased during this audit period. This was all related to the additional expenses in connection with surveys made prior to the sales of the houses. The incurring of these expenses was approved by the State Housing Board on April 29, 1953. In this connection the following excerpt from the letter of approval is shown:

"That the State Housing Board approves the expenditure by the City of Boston, Massachusetts, acting through the Boston Housing Authority, in an amount not to exceed \$7,500.00, for the appraisal of 504 Chapter 372 veterans' one and two-family houses."

**Unused Properties:** It was noted that the following properties purchased under authority of Chapter 372 were not being used:

River Street Projects:  
North Side - 2 lots  
South Side - 22 lots

It was learned from the State Housing Board that the residual value of these lots was \$11,940.91.

**Chapter 200-1 - Vacancy Losses:** Attention is directed to the fact that the records of this project indicate an unusually large vacancy loss, apparently because one-bedroom apartments have not recently been in demand. This vacancy loss for the audit period totaled \$32,663.01, or an average of \$2,512.54 a month. The loss was charged to Operating Reserve.

This condition has existed for an extended period. It is understood that it probably will be corrected in the near future as legislation is to be proposed which will permit the renting of such apartments to other than war veterans.

**Chapter 200-1 - Accounts Payable:** It was noted that a few items are still being carried as accounts payable that actually should be closed out. The items developed as the result of over-estimates when the project went into Permanent Financing on October 1, 1952 and include the following:

Land Costs	\$4,866 06
Bond Costs	3,849 08
Site Costs	4,244 41

The foregoing accounts should be adjusted. It is suggested that possibly because of the unusual situation developed because of the large vacancy losses, this item might be credited to the Operating Reserve account.

**Accounts Receivable:** It was noted that the records of this project did not include an Accounts Receivable of \$6,085.00 due from the Central Office account. The amount was for compensation paid to board members during the months of January, February and March 1954, and was made from Chapter 200-1 because the appropriation for such compensation had not, to that date, been received from the City of Boston. It was noted that reimbursement of this amount was received from the Central Office account during the month of May 1954.

**Cash Balance:** It was noted that an unusually large cash balance was being maintained in the Administration Account. This balance, as of the date of audit, was \$276,063.20. It is suggested that the larger portion of this amount might possibly be invested in Government securities even though it be for only a short period.

**Chapter 200-5 - Payment in Lieu of Taxes:** Because this project has been operating at a deficit, the State Housing Board directed that no payment would be made to the City of Boston in lieu of taxes. Accordingly, the amount of \$13,294.04 which was for the 1952 and 1953 fiscal years that had been reserved for this purpose was canceled and was credited to the Operating Reserve account. In this connection it was noted that this credit was larger than the aggregate of the deficits of the fiscal years ending March 31, 1953 and March 31, 1954 which were \$4,200.83 and \$6,274.34 respectively or a total of \$10,475.17.

**Utility Charges:** It appeared that the charges for utilities, exclusive of water, were unusually high for this project. It was understood that the State Housing Board estimate for these utilities was \$18.10 per unit per month, and this amount was taken into consideration in estimating the potential net rental income for the project. The actual utility charges, however, exclusive of water for the fiscal year ending March 31, 1954 were approximately 46% in excess of that estimate, as follows:



Actual Utility Charges	\$63,933 24
Utility Charges (State Housing Board - Estimate and Budget)	<u>43,875 00</u>
Excess	<u>\$20,068 24</u>

The variation was attributed mainly to gas charges. In this connection several conferences have been held by representatives of the Boston Housing Authority, the State Housing Board, and the Gas Company. It appears that all interested are cognizant that an adjustment should be made and it is understood that steps are being taken in this direction.

Chapter 200-7 - Accounts Payable: This project is in the permanent financing status on a note basis. However, several accounts payable which were set up at the close of the initial operating period, are still open.

This project went into permanent financing on January 1, 1953 and the items referred to which follow are doubtless the result of over-estimates:

Site Costs	\$ 842 00
Land Costs	<u>626 76</u>
	<u>\$1,468 76</u>

It is suggested that these be adjusted and the income account correspondingly credited, thereby increasing the surplus and consequently reducing the Commonwealth subsidy required for the current year.

It was further noted that there is an amount of \$4,992.25 for bond costs also so represented. Inasmuch as this item now appears to be quite indenfinite, it is suggested that it also be closed and credited to income. In the event that bonds are eventually issued, any expense at that time could be directly assumed.

Chapter 200-8 - Payment in Lieu of Taxes: It was noted that an incorrect basis had been used in computing this item, the accrual was understated in the amount of \$2,970.00. The accountant for the authority was advised of the variance and he was instructed to adjust the records accordingly.

Chapter 200-12 - Operating Improvements: The balance sheet for this project included an item of \$1,085.12 for operating improvements. This project, however, is still in the development stage and obviously has not yet reached a stage where operating improvements can be possible. This amount should have been charged to development costs, and it is suggested that the necessary adjustments be effected.

Chapter 200-13 - Calf Pasture: This project has been in the development stage since May 1951 and as of the date of audit the records indicated total development costs of \$453,804.20. The project has been financed by notes in the amount of \$3,400,000.00 at the rate of 6% for which a premium of \$274,844.00 had also been received reducing the net rate to .67012 per cent. It was noted that the unused funds including the bond premium have been invested in United States Securities in the amount of \$3,165,000.00 as follows: \$2,900,000.00 United States Treasury Certificates @ 1 1/8%, and \$265,000.00 Treasury Notes @ 1 5/8% interest.

Activity on the project has been temporarily suspended and for the time being there will be no further charges to the development costs. A directive dated April 30, 1954 authorizing this suspension, was received from the State Housing Board, a copy of which follows:

C O P Y THE COMMONWEALTH OF MASSACHUSETTS

STATE HOUSING BOARD

90 Tremont Street, Boston 8

OFFICE OF THE CHAIRMAN

April 30, 1954

Mr. Owen Gallagher, Chairman  
Boston Housing Authority  
230 Congress Street  
Boston, Massachusetts

Dear Mr. Chairman:

Inasmuch as a considerable amount of money has already been spent on your Boston 200-13 project and there appears to be some uncertainty as to whether or not this project will be carried beyond its present stage, I have discussed the entire matter with Chairman Tyler and it is our united opinion that no more money should be expended on this account until such time as a definite decision is reached relative to the construction of this project.

We are asking, therefore, that you please instruct your Finance Section to withhold the expenditure of any more funds from this project account unless you have prior approval from the Chairman of the State Housing Board.

Very truly yours,

/s/ H. A. McPHETRES

HARLAND A. McPHETRES  
Director

General - All Projects

Insurance: A check was made of the various types of insurance coverage for the projects. In this connection the following was disclosed:

Comprehensive Public Liability Insurance which had considerable time to run to the expirations of the policies, was canceled as of July 27, 1953 and new policies placed with another company at greatly increased rates for the same coverage.

The figures covering the insurance mentioned were as follows:

Project	Date - Expiration Policy Canceled	Unexpired Term	Rate (Per Year) Canceled Policy	Rate (Per Year) New Policy
200-1	Mar. 1, 1956	2 Years - 7 Months	\$ 736 99	\$3,240 88
200-2	Mar. 1, 1956	2 Years - 7 Months	54 48	548 57
200-3	Mar. 1, 1954	7 Months	1,058 25	3,264 85
200-4	Aug. 30, 1953	1 Month	140 74	1,207 77
200-5	May 1, 1954	9 Months	152 85	708 71
200-7	Jan. 30, 1955	1 Year - 6 Months	217 92	1,187 18
200-8	Nov. 5, 1955	2 Years - 3 Months	267 86	1,608 63

PITTSFIELD HOUSING AUTHORITY

REPORT NO. 54-H-90

Operations - First Fiscal Year: The records of the project, after taking into consideration the maximum possible Commonwealth Contribution of \$45,650.00, reflected a surplus of \$1,242.39 for the first fiscal year under Permanent Financing which ended on September 30, 1953. This surplus was subsequently transferred to the Operating Reserve upon instructions of the State Housing Board. It is understood that this Authority will again receive the maximum Commonwealth Contribution for the second fiscal year under Permanent Financing.

Meetings of the Authority: It was noted that there were only two official meetings of this Authority during the period from March 31, 1953 to December 31, 1953. It is understood that the failure to hold regular meetings was due to the inability to get sufficient members together to hold a proper meeting.

Attention is directed to the fact that a vacancy has existed on the membership of the Authority since the resignation of a member in October 1951. It is suggested that this vacancy be filled as soon as possible in order to promote efficient functioning.

Rental Review: It was noted that the Authority had not made its required annual review of tenants' incomes for the purpose of rental computation. It is understood that this review, which should have been made in the early months of 1954, was suspended because of the uncertainty of the local employment situation at that time. It was understood that it will be made at some future period during this year.



Comprehensive Public Liability Insurance: Attention is directed to the fact that this insurance, which was in effect, was canceled by direction of the State Housing Board as of July 27, 1953.

Subsequently other insurance of a comparable amount and scope was placed with another company. It was noted, however, that this new insurance which formerly cost \$.756 per unit per year was billed under the new contract at the rate of \$3.65 per unit per year.

# WESTFIELD HOUSING AUTHORITY

REPORT NO. 54-H-91

Debt Service Payments: This Authority pays into its Debt Service Fund through its fiscal agent each year from rental income an amount which together with amounts received from other sources will equal that year's total debt requirements. On February 1, 1954 this Authority paid to the fiscal agent the sum of \$8,922.62 for this purpose which had been computed as follows:

Principal and Interest Due		\$27,257 50
Less:		
State Contribution	\$18,250 00	
1/40 Premium on Bonds	57 49	
Income on Investments	27 39	18,334 88
Project Requirement		<u>\$8,922 62</u>

Commonwealth Contribution: This Authority has received through its fiscal agent, as provided in its contract for Financial Assistance with the Commonwealth, its second subsidy payment in the amount of \$18,250.00, which represents 2 1/2% of the Total Development Cost. The operating surplus for the first year of operations, after full subsidy payment by the Commonwealth, amounted to \$3,175.57 and was transferred to the Operating Reserve. The Operating Surplus for the second fiscal year of operations, after full Commonwealth subsidy, amounted to \$6,713.62. Of this amount \$2,300.00 was transferred to Operating Reserve and \$4,413.62 will be used to reduce the third year's subsidy to \$13,836.38.

These subsidies paid to the Authority by the Commonwealth with the corresponding rental savings to each tenant follow:

Year	Subsidy Paid	Saving Per Tenant Per Month
1952	\$18,250 00	\$24 93
1953	18,250 00	24 93
1954	13,836 38	18 90

Accounts Receivable - Tenants: It was again noted that several of the Tenants' Accounts for dwelling rent were not being maintained on a current basis. As of April 30, 1954 there were balances outstanding totaling \$1,457.00, of which \$248.00 had been outstanding for more than one year. It is again urged that every effort be made to maintain this account on a current basis, and those on which all collection efforts have been fruitless charged off after proper approval has been received.

Employees Bonded: It was noted that the employees and members of the Authority are not insured by a Position Bond. It is recommended that the State Housing Board include these individuals under the so-called Blanket Position Bond.

Comprehensive Public Liability Insurance: Attention is directed to the fact that this insurance which was in effect was canceled by direction of the State Housing Board as of July 27, 1953.

Subsequently insurance of a comparable nature and amount was purchased from another company. It was noted, however, that this insurance which was formerly paid for at the rate of \$.756 per unit per year was billed under the new contract at the rate of \$2.08 per unit per year.

Operating Reserve: It was noted that the Operating Reserve of this Authority has been credited \$5,475.57 in excess of that permitted by the provisions in the Management Resolution. This excessive credit has, of course, resulted in increased subsidy payments by the Commonwealth. The Chairman of this Authority could not explain the

reasons for this entry and it is therefore recommended that this matter be reviewed by the State Housing Board so that the provisions of the Management Resolution may be complied with.

## DALTON HOUSING AUTHORITY

REPORT NO. 54-H-92

Project 200-1

Debt Service Payments: This Authority pays into its Debt Service Fund through its fiscal agent each year from rental income an amount, which together with amounts received from other sources, will equal that fiscal year's total debt requirements. The Debt Service requirements for the fiscal year ending September 30, 1954, payable August 1, 1954, were computed as follows:

Bonds and Interest Payable		\$7,220 00
Less:		
Commonwealth Contribution	\$3,850 00	
Contribution Reduction	<u>1,000 00</u>	<u>4,850 00</u>
Project Requirement		<u>\$2,370 00</u>

This Authority has also received, through its fiscal agent as provided in its Contract for Financial Assistance with the Commonwealth, its fourth subsidy payment in the amount of \$3,850.00. This amount is \$1,000.00 less than the maximum subsidy of 2 1/2% of the Development Cost. This decrease was effected by applying \$1,000.00 of the third fiscal year's surplus.

Operating Reserve: It was noted that \$407.10 of the third year's operating surplus was reserved for Operating Reserve at the direction of the Chairman of the State Housing Board.

Payment in Lieu of Taxes: The previous audit report stated that the Town of Dalton had been overpaid for taxes in the amount of \$131.20. It was noted, however, that this amount had not been adjusted to the date of this audit. This overpayment was computed as follows:

Period	Dwelling Rent	Tax Determined
July 24, 1950 to September 30, 1950	\$1,312 00	\$ 65 60
October 1, 1950 to December 31, 1950	1,968 00	98 40
January 1, 1951 to December 31, 1951	7,872 00	393 60
January 1, 1952 to December 31, 1952	8,516 00	425 80
January 1, 1953 to December 31, 1953	8,583 00	429 15
Adjustment for 1953		<u>146 85</u>
Total Taxes Due		\$1,559 40
Payments:		
February 2, 1951	131 20	
September 19, 1952	459 20	
December 13, 1952	417 95	
December 16, 1953	428 45	
April 2, 1954	<u>253 80</u>	<u>1,690 60</u>
Overpayment		<u>\$131 20</u>

It is recommended that steps be taken to adjust or collect this item.

Project 200-2

Debt Service Payments: This Authority pays into its Debt Service Fund through its fiscal agent each year from rental income an amount which together with amounts received from other sources will equal that fiscal year's total debt requirements. For the second fiscal year this amount of \$1,841.13 will be paid in two installments; on March 1, 1954, \$859.88 and on September 1, 1954, \$981.25. This amount was established as follows:



Bonds and Interest Due		\$5,925 00
Less:		
Commonwealth Contribution	\$3,975 00	
1/40 Premium	62 69	
Income on Investment	46 18	4,083 87
Total Project Requirement		<u>\$1,841 13</u>

There has been received through the fiscal agent, as provided in the Contract for Financial Assistance with the Commonwealth, 25% of the second subsidy payment. The balance of the subsidy will be paid to the fiscal agent by the Commonwealth on September 1, 1954. The total subsidy for the second fiscal year will amount to \$3,975.00 which is 2 1/2% of the total certified Development Cost. The surplus after subsidy payment for the first fiscal period of \$578.79 was transferred to Operating Reserve.

#### General

**Investment of Surplus Funds:** It was noted that the surplus cash of the two projects was not being invested in compliance with instructions from the State Housing Board. It is recommended that such balances be invested in the manner approved by the Chairman of the State Housing Board.

**Comprehensive Public Liability Insurance:** Attention is directed to the fact that this insurance in effect was canceled by direction of the State Housing Board as of July 27, 1953.

Subsequently insurance of a comparable nature and amount was obtained from another company. However, this insurance which formerly was paid for at the rate of \$.756 per unit per year was billed under the new contract to both projects at the rate of \$1.87 per unit per year.

#### EASTHAMPTON HOUSING AUTHORITY

REPORT NO. 54-H-93

**Debt Service Payments:** This Authority pays into its Debt Service Fund through its fiscal agent each year from rental income an amount, which together with amounts received from other sources, will equal that fiscal year's total debt requirements. The debt requirements for the fiscal year ending June 30, 1954 were computed as follows:

Bonds Maturing and Interest Payable		\$12,991 25
Less:		
Commonwealth Contribution	\$6,090 72	
Contribution Reduction (Prior Year's Surplus)	2,409 28	
1/40 Bond Premium	94 27	
Interest from Investment	52 50	8,646 77
Project Requirement		<u>\$4,344 38</u>

**Operating Reserve:** The maximum operating reserve to be established by this Authority has been established at \$9,300.00, but the balance in it as of May 31, 1954 was \$9,866.78. This excess reserve was created by crediting to it \$750.00 of prior year's surplus. It is recommended that the Chairman of the State Housing Board order a reduction in this reserve to the maximum allowable amount and recommend that the excess of \$566.78 be applied to the Contribution Reduction Account.

**Deposit of Cash:** The previous audit report stated:

"It was noted that the recorded cash receipts do not agree with the cash deposits as appearing on the bank statements. This condition was occasioned by cash receipts being recorded on the cash book although they were not deposited at the end of each month. It is advised that all cash collections be deposited in the month received."

The records of this Authority indicate that these cash receipts are still not being deposited during the month received. A cash shortage has existed in this account in the amount of \$15.20 since April 30, 1954, which would probably not exist had the income been promptly deposited. It is therefore again suggested that all cash collections be deposited promptly on receipt.

Accounts Receivable - Tenants: It was noted that the approval of the State Housing Board dated January 9, 1954 to charge off delinquent Accounts Receivable totaling \$196.00 has been ignored, and is therefore still included with the active Accounts Receivable. It is recommended that these accounts be accordingly charged off.

Auditing Services: It appears that auditing services, for which a charge of \$115.00 per year is paid, is a duplication of services performed by the field accountant of the State Housing Board. It is suggested that steps be taken to dispense with the services of the paid auditor.

Comprehensive Public Liability Insurance: Attention is directed to the fact that this insurance formerly in effect was canceled by direction of the State Housing Board as of July 27, 1954.

Subsequently, insurance of a comparable nature and amount was obtained. However, it was noted that this new insurance which was formerly paid for at the rate of \$.756 per unit per year was billed under the new contract at the rate of \$1.87 per unit per year.



## AUDIT OF METROPOLITAN TRANSIT AUTHORITY AND RELATED AGENCIES

Audit of Metropolitan Transit Authority: Chapter 675 of the Acts of 1949 provides as follows:

"Chapter 544 of the acts of 1947 is hereby amended by striking out section 12 and inserting in place thereof the following: SECTION 12. The trustees shall determine the character and extent of the services and facilities to be furnished, and in these respects their authority shall be exclusive and shall not be subject to the approval, control or direction of any state, municipal or other department, board or commission. Except as herein otherwise provided, the department shall have the same general supervision and regulation, and jurisdiction and control over, the services and facilities of the authority as it has over street railway companies. The department of the state auditor shall annually make an audit of the accounts of the authority and make a report thereon to the trustees, the governor and council and the general court. In making said audits, said department of the state auditor may call upon the department of public utilities and other departments, commissions, officers and agencies of the commonwealth for such information as may be needed in the course of making such audits. The state auditor may employ such auditors, accountants, and other assistants as he deems necessary for carrying out his duties under this section, and chapter thirty-one of the General Laws and the rules made thereunder shall not apply to such employees."

A complete report of an audit of the accounts of the Metropolitan Transit Authority for the calendar year ending December 31, 1953, was issued on July 30, 1954. In order that our audit might be comprehensive and complete, separate examinations of the accounts of the Boston Metropolitan District and the Transit Mutual Insurance Company were also completed and reports issued.

General: Individual copies of the audit reports have been submitted to His Excellency the Governor, the Lieutenant-Governor, the President of the Senate, the Speaker of the House, the State Librarian, the Governor's Councilors, and the Senators, Representatives and officials of the cities and towns of the Boston Metropolitan District and the members of the Board of Trustees and officials.

## SCHEDULE OF TRANSIT AUDITS

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FISCAL YEAR 1953-1954

Agency	From	To	Page No.
Metropolitan Transit Authority	Jan. 1, 1953	Dec. 31, 1953	318 - 338
Boston Metropolitan District	Jan. 1, 1953	Dec. 31, 1953	338 - 340
Transit Mutual Insurance Company	Jan. 1, 1953	Dec. 31, 1953	340 - 341

The following comments, exceptions and recommendations were included in the reports issued in connection with this examination:



1. **AUDIT:** This audit was conducted under the provisions of Chapter 675 of the Acts of 1949, which amended Section 12 of Chapter 544 of the Acts of 1947 and provides for an annual audit of the accounts of the Metropolitan Transit Authority by the Department of the State Auditor.

This report covers the calendar year 1953, and, in addition, separate reports covering the same period have been issued as the result of separate examinations of the Boston Metropolitan District and the Transit Mutual Insurance Company.

In further connection with this audit, the accounts of two concessionaires of the Authority, selected by the Department of the State Auditor, were examined to the extent necessary to verify the rentals paid to the Railway.

2. **GENERAL:** The principal accomplishment of the present Trustees during the year 1953 has been a reduction in operating costs, mainly through the release or early retirement of hourly rate employees, consequently accompanied by reductions in service.

Early in 1954, on their fifth attempt, the Trustees received authorization for a fare increase, which, while it has produced some increase in revenue, has been accompanied by a continuing decrease in the passenger load.

Such methods can hardly be acclaimed as accomplishments. It has been the stated opinion of this department since the creation of the Metropolitan Transit Authority that the ultimate solution to the problems of the Railway lies in expansion of low cost rapid transit service throughout the present area. Any expansion of the rapid transit system under the present Trustees has not progressed beyond the talking and planning stage. Actually many millions of dollars of the taxpayers' monies have been expended on similar plans in the past without visible results. The only rapid transit extension that has progressed beyond the planning stage is the extension to Revere, and that alteration was ordered by the General Court through legislation filed by Representatives in the Revere area, apparently as a result of a comment contained in our report several years ago, which strongly urged such an extension.

The present Trustees have on five separate occasions sought fare increases, and in actual fact reduction of deficits accomplished through fare increases affords no relief whatsoever to the taxpayers of the District. No Trustees in the brief history of the Metropolitan Transit Authority have apparently recognized the fact that costs of the MTA are going to be paid by the taxpayers of this area, either in fares or in deficits. We see no financial gain from fare increases; in fact, such increases can be detrimental to the District for they encourage many commuters to use their cars to drive into Boston, thereby adding complications to the traffic problems of the city and placing an additional burden upon the taxpayers to provide highway and parking areas for this extra traffic.

3. **TENURE OF TRUSTEES:** Since the advent of the MTA in 1947, the Commonwealth has had three governors and three separate Boards of Trustees. Without attempting to pass on the abilities or the qualifications of the three different Boards of Trustees, this department feels quite strongly that continual changes in Trustees makes solution of the basic problems of the Railway an impossibility. It has taken a half century of both good and bad management of the Railway to produce the conditions that exist today and these conditions cannot now be solved in two years or four years, since policies aimed at eventually correcting such problems must of necessity be of a long-range nature. Each new Board of Trustees, therefore, has adapted itself to the existing short-term policy, and their planning has been thus limited and their accomplishments of little or of even negative value.

In addition to the general ineffectiveness of short-term Trustees, two specific costly changes in policy arose during 1953 as a result of the most recent changes in Trustees:

(1) The previous Trustees on March 18, 1953 issued purchase orders for snow-removal equipment at a cost of over \$200,000.00. Soon after the present Trustees took office, they announced adoption of a no snow-removal policy by the Railway but the Railway still had to accept delivery of the equipment ordered by their predecessors. This matter is discussed fully later in this report.

(2) On March 1, 1953 the previous Trustees borrowed \$525,000.00 for the construction of parking areas. The present Trustees have no plans for the construction of such areas at MTA expense and have in their possession nearly \$550,000.00 on which they are paying interest and which they can spend for no other purpose than building parking areas. This matter is also discussed later in this report.

4. OPERATIONS - 1953: For the calendar year 1953, the Authority reported a net assessable deficit of \$8,350,676.08, but the actual cost of Railway operations in 1953 amounted to \$9,930,500.93.

This substantial difference arises from the fact that the Trustees in reporting their deficits do not include the cost of principal payments on subway and construction bonds, interest on deficit notes issued by the State Treasurer, or costs of operating the Boston Metropolitan District. These items, however, are assessed on the taxpayers.

The deficit reported by the Trustees is further deflated by items of a non-recurring nature, which will not necessarily reappear on future Railway statements and, therefore, must be eliminated if the overall financial condition and prospects of the Railway are being studied.

The following is an analysis of the various items which have thus affected the 1953 deficit of the Railway:

Loss Resulting from Operations		\$9,125,846 68
Plus Other Costs Not Included:		
Retirement of Subway and New Construction Debt (Assessed Directly on Cities and Towns)	\$744,592 61	
Interest on Deficit Notes	48,061 64	
Boston Metropolitan District Budget	12,000 00	804,654 25
Actual Operating Loss		\$9,930,500 93
Less Profit and Loss Items:		
Miscellaneous Credits:		
Premium Discount on Compensation Insurance Applicable to Prior Years	\$ 22,546 39	
Adjustment of 1947 Federal Income Tax Refund	574,592 15	
Interest Accrued on 1944 Federal Income Tax Refund	234,230 70	
Gain from Disposal of Land	19,177 00	
Adjustment of Unpaid Dividend and Coupon Liability	3,040 75	
Adjustment of Employees' Passes and Uniform Buttons	1,000 00	
Adjustment of Outstanding Tickets	19,900 00	
Dividend on Compensation Insurance	50,683 61	925,170 60
		\$9,005,330 33
Plus Legal Services Relating to Federal Income Tax Cases		150,000 00
Loss for the Year		\$9,155,330 33

Revenue from transportation dropped substantially from \$37,858,580.41 in 1952 to \$35,952,606.11 in 1953. Total revenue from all sources dropped from \$39,042,962.61 in 1952 to \$37,067,698.32, while operating expenses were also decreased from \$41,896,705.63 in 1952 to \$39,921,100.72, and this latter total includes an allowance of \$1,200,000.00 for depreciation of property, which is discussed later in this report.

Revenue miles operated by the Railway dropped from 46,566,413 miles in 1952 to 44,264,384 miles in 1953, while passengers carried reached a new recent low of 268,286,299. Listed below is a study of passengers carried by the Railway from the year 1919 to 1953.

Year	Revenue Passengers	Year	Revenue Passengers
1919	324,758,685	1937	296,397,493
1920	335,526,561	1938	291,175,017
1921	337,252,080	1939	295,123,077
1922	356,593,942	1940	294,450,628
1923	382,149,697	1941	306,815,525
1924	382,888,848	1942	370,265,241
1925	365,036,286	1943	418,203,633
1926	371,218,401	1944	417,069,378
1927	366,938,908	1945	420,096,165
1928	362,005,033	1946	433,094,952



1929	354,214,990	1947	388,573,222
1930	342,694,905	1948	381,023,889
1931	324,788,577	1949	A
1932	291,753,825	1950	307,732,315#
1933	267,845,429	1951	288,972,823
1934	277,034,175	1952	277,713,059
1935	280,402,526	1953	268,286,299
1936	296,180,666		

A - Not available due to change in fare structure, effective August 6, 1949.

# - January 1 - 27, 1950 estimated.

The present Trustees have apparently continued the policies of their immediate predecessors in attempting to bring the Railway into the black by continuing reductions in the revenue miles operated by the Railway. In the year 1948, the Railway operated more than 54,700,000 revenue miles, and as a result of this policy, revenue miles in 1953 reached a new low of 44,264,384 miles, representing a decrease of 2,302,029 revenue miles during the year. The results of this policy are clearly demonstrated by the following summary of revenue miles operated by the Railway annually since 1948:

1948	54,704,850
1949	53,120,910
1950	50,704,354
1951	48,485,695
1952	46,566,413
1953	44,264,384

The greatly heralded economies of the present Trustees have been accomplished by reducing operations and consequent reductions in the hourly pay roll. It cannot be denied that the Railway has lost passengers and revenue as a result of this policy. This department reiterates its stated opinion of the past several years, that the ultimate solution of the financial problems of the MTA lies not with a continuous contraction of service but rather with an economical expansion of rapid transit service within the area now served by the Authority.

The continuous efforts which have characterized the administration of the present Trustees to seek increases in the fare structure of the Authority cannot provide a solution. Whatever the costs of the system are, they will be met by the taxpayers of the fourteen cities and towns that constitute the MTA district. If fares are raised then the increase in fares must come from these taxpayers, while, on the other hand, if deficits increase, the cost of those deficits will be paid by the same taxpayers. In reality the Railway with extended economical rapid transit service could operate on a lower fare structure to the economical benefit of the area with little effect on the taxpayers who, in any event, must bear the costs of the Railway.

This department recommends that the Trustees attack the basic problem of the Railway, which is a continuing decline in passengers, through an economical amplification of the low operating cost rapid transit system.

5. CASH POSITION: On December 31, 1952 the Railway had in its possession in unrestricted cash \$2,434,372.30 and investments in U. S. Treasury Bills amounting to \$1,997,488.89, while at the same time the Boston Metropolitan District held a note of the MTA for seven million dollars. On December 31, 1953 the unrestricted cash on hand at the Railway amounted to \$3,998,603.08, while the Boston Metropolitan District held notes of the Authority amounting to five million dollars.

While it is obvious from the above that the cash position of the Railway improved during the year 1953, this improvement resulted in no small measure from the fact, that the MTA received during the year 1953 the following amounts in cash over and beyond their normal income from fares and concessions:

Deficit	\$ 7,829,044 64
Refund - - Income Taxes	591,972 56
Interest on Tax Refund	234,230 70
Proceeds of Bond Issue	1,545,000 00
	<u>\$10,200,247 90</u>

During recent years the Trustees have found increasing needs to borrow money on temporary notes. As a result when payment of the deficit has been made to the Authority by the State Treasurer, almost the full amount of the deficit has been immediately needed to pay off the note or notes held by the Boston Metropolitan District. The 1954 Legislature, under Chapter 409, has now authorized the Trustees from time to time each year to certify to the State Treasurer their losses to the date certified whereupon the State Treasurer will pay the sum so certified to the Railway. Under the provisions of this Act, it will now be possible for the Trustees to collect their deficit monthly, if necessary, during the year in which the deficit is incurred.

6. **ENGINEERING AND ACCOUNTING SURVEY:** Chapter 18 of the Resolves of 1953 authorized and directed the Metropolitan Transit Authority to provide for a survey relative to:

- (1) The physical assets and facilities of the Authority and the management and operation of the transportation system
- (2) The financial structure of the MTA, including its purchasing and accounting procedures and the financing of its bonded indebtedness.

In compliance with this order of the Legislature, on June 19, 1953 an agreement was entered into with a prominent engineering and accounting organization to conduct these surveys. This work was completed and a report filed on December 1, 1953 at a cost of \$100,000.00.

During the course of this audit, we have examined the recommendations and the observations contained in that report and we have failed to note any positive action by Trustees to comply with the recommendations of this costly survey; but to the exact contrary we do find that the Trustees took action to nullify the most important single recommendation of the entire report.

(a) **Depreciation:** On page 40 of the report of the engineers, it was recommended to the Railway:

"The annual charge of \$1,200,000 to cost of service for depreciation of road and equipment, other than rolling stock, should be discontinued . . ."

This agrees entirely with recommendations made by this department in our previous audit reports. Should this annual charge be eliminated, a substantial reduction could be expected in the cost of service every year thereafter.

This one recommendation of the private engineers if it had been accepted would have more than justified the considerable expense of \$100,000.00 which the survey cost. Instead, however, the Trustees hired another private accounting organization at a cost of \$225.00 who, by letter, advised the Trustees that in their opinion the present depreciation policies of the Authority were justified and should be continued.

It is interesting to note from an examination of the letter submitted by this accounting organization that their conclusion that the present annual charge of \$1,200,000.00 in depreciation was justified was arrived at by them largely from data furnished by the MTA and without examination or audit. That letter states in part:

". . . We have made examinations for the Massachusetts Department of Public Utilities of the accounts of the Authority for the period from August 29, 1947 to December 31, 1947 and for the year ended December 31, 1948. From information obtained by us during the course of these latter examinations and from accounting data which you have furnished to us at our request for the portions of the seven years ended December 31, 1952 not covered by these examinations, we have projected the December 31, 1945 and prior depreciation studies to the beginning of the year 1953. The data furnished to us for these unexamined periods has been accepted after a brief review on our part without examination or audit."



(b) Purchasing: On page 29, the private report recommends that the MTA:

"Discontinue the present practice of obtaining written bids on purchases under \$50."

A previous report issued by this department in this connection, stated as follows:

"Since a study indicates that approximately 50% of the purchase orders issued involved \$50.00 or less, it is recommended that the Trustees establish certain limits under which purchases may be made directly, without competitive bidding, and that in no event should expenditures be made beyond the limits thus set, except by competitive bidding."

We have failed to note any change in the purchasing policies of the Railway.

(c) Refunding Bonds - Subway Debt: On page 43 of the private report, in referring to this subject it is stated:

". . . We believe that when this refunding becomes necessary consideration should be given to having the new bonds issued by the Boston Metropolitan District rather than the city if a more favorable interest rate can thus be obtained."

In arriving at this conclusion, the private accountants have obviously overlooked the fact that existing statutes already require that the refunding of the subway debt will be made by the Boston Metropolitan District and not by the City.

(d) Liability Insurance: In commenting on this subject, our previous audit report stated:

"In view of the extravagant costs of maintaining this phase of the Authority's operations, we recommend to the new Trustees that a study be made to determine whether or not the entire department should be abolished and the reserve liquidated and the processing of all injury and damage claims be accomplished through a private insurance company . . ."

In this connection, the private engineers' report stated:

". . . While coverage probably could be purchased through stock companies, the Authority would have to relinquish its right to agree to settlement in losses exceeding \$10,000, and this might not be in the interest of good public relations . . ."

The reasoning in this statement is not clear and various interested officials of the MTA were also unable to explain this opinion of the private engineers. In actual fact, it would appear that if the MTA could obtain private coverage for this insurance, even at their own present cost it would be advantageous to the taxpayers, for it would eliminate the present reserve and substantially reduce the deficit.

(e) General: No attempt by this department has been made to follow all of the conclusions drawn in this private report. The report itself, however, has been read and certain items which related directly to our audit have herein been commented on. Some of the conclusions drawn in the report, however, seem to be far-fetched and not basically sound, as for example, on page 23 in referring to the maintenance of the vehicles and the equipment of the Railway, they comment:

"The record of reported road failures is extremely good. This may imply that the equipment is being overmaintained . . ."

This is a strange conclusion to draw. In substance what the report is attempting to say is that because the Railway does not have a certain number of breakdowns of equipment on the road, then the conclusion must be that the MTA is spending too much money on maintenance.

7. **FARE INCREASES:** The activities of the present Trustees have been largely devoted to a reduction in the services provided by the Railway and a consequent reduction in the number of hourly rate employees of the Railway, accompanied by consistent and continuing efforts to increase fares.

Five different petitions have been made to the D. P. U. by the present Trustees for increases in the fare structure of the Railway, and certain of these must be described as entirely unreasonable and exorbitant and which if adopted would undoubtedly -- despite the contention of the present Trustees -- result in even greater financial losses than those currently suffered by the Railway.

The following is a summary of the various requests of the present Trustees for fare increases:

<u>Petition</u> <u>D. P. U.</u>	<u>Filing</u> <u>Date</u>		<u>Current</u>	
10593	7/ 6/53	Rapid Transit and Systemwide Surface Lines	15¢ 10¢ 5¢	20¢ or 1 Token 15¢ 7 1/2¢
		Existing Fares Increased 5¢ with the exception of a 2 1/2¢ increase on Pupils' Tickets. Disapproved by D. P. U. 7/31/53		
10733	11/ 9/53	Rapid Transit	15¢	20¢ or 1 Token
10733A	11/16/53	Rapid Transit and One Surface Change	15¢	27¢ or 1 Token and 7¢
		Two Surface Changes Plus Rapid Transit	15¢	34¢ or 1 Token and 14¢
		Single Surface Line	10¢	14¢
		Two Connecting Surface Lines	15¢	28¢ or 1 Token and 7¢ Special Fare
		Night Lines 1:00 A.M. to 5:00 A.M.	15¢	35¢
		3 Tokens 50¢		
		Petitions 10733 and 10733A alike with the exception of dates they would be- come effective. These petitions were withdrawn by MTA on 3/10/54 because of legislative changes in the cost of service with respect to fixed charges. Dismissed by D. P. U. 3/31/54		
10854	3/10/54	Rapid Transit and Systemwide Surface Lines 3 Tokens 50¢	15¢ 10¢	20¢ or 1 Token 20¢ or 1 Token
		Disapproved by D. P. U. 3/30/54		
10890	4/ 6/54	Rapid Transit and Systemwide Surface Lines 5 Tokens 90¢	15¢ 10 ¢	20¢ or 1 Token 13¢
		Approved by D. P. U. 4/6/54		



The first increases sought by the Trustees according to their public statements came as a result of their interpretation of Section 11 of Chapter 544 of the Acts of 1947. When these increases were denied, in order to be consistent they sought amendment of this Section which was granted under Chapter 196 of the Acts of 1954.

The Trustees, in their several attempts to raise fares claimed their requests were forced upon them by Section 11 of Chapter 544 which they said required them to include all operating costs and fixed charges in computing their fare structure. This was not correct, for that section of the public purchase act allowed them discretionary power by the inclusion of the phrase "in their judgment."

It should be obvious that it is not possible while operating the present MTA system, as it is presently constituted, that any fare structure could be set up which would provide all of the funds necessary to meet all of the costs. Previous Trustees never attempted such increases; they based their policy on the fact that they were allowed independent judgment by the statute.

There is an opportunity to minimize the staggering losses suffered by the Railway if the cost of fixed charges can be hidden by direct assessment upon the cities and towns as is evidenced by the present direct assessments of nearly eight hundred thousand dollars per year on the taxpayers to pay off the subway debt for which costs the MTA does not account in their deficits. Early in December of 1953 there was unequivocal public statements made that legislation would be sought to place all fixed charges in the category of direct assessments. Later recognizing the futility of such efforts, an amendment to Section 11 of Chapter 544 of the Acts of 1947 was enacted by the General Court, which allowed the Trustees to do that which they always could have done, that is to eliminate fixed charges in calculating fares.

The last requested increase was finally approved by the Department of Public Utilities and became effective on April 12, 1954, and optimistic statements, made by the Trustees regarding the success of this fare increase following the end of the month of April, were widely circulated, to the effect, that the road was operating in the black. In reality for the month of April, which included nineteen days at the increased fares, income of the Railway increased \$86,481.52 over April 1953, but the road operated at an actual deficit of \$474,973.44, and this loss does not include the cost of retirement of the subway and new construction debt, which is assessed directly on the cities and towns.

For the full month of May 1954, under this new fare structure the increase in the income of the Railway amounted to \$155,538.96, and the statements which accompanied release of this information intended that the public should believe that the road operated at a profit during that month. Actually there was a loss of \$402,111.23 during that month, and this deficit again does not include other costs which are assessed directly upon the cities and towns.

The Trustees did not accompany either of these releases with the usual statistics giving the number of passengers carried during the period. When these statistics are released by the MTA, there will probably be shown a further substantial loss in passengers. When the Authority analyzes this decrease in patronage, if they follow their usual practices, we can expect further reduction in hourly rate personnel and service.

**8. CONSTRUCTION:** The administrations of the various Boards of Trustees that have operated the Metropolitan Transit Authority since 1947 have one specific policy in common, and that has been wherever possible, to minimize the annual deficits reported by the transfer of certain costs of the Railway directly to the cities and towns.

When in 1949 the MTA took over title to all the subways in the City of Boston, the legislation provided that the costs of annual retirements of that debt would be assessed directly upon the cities and towns of the District and that such costs therefore would not be reflected in the annual deficits of the MTA.

The annual cost of retiring the debt occasioned by taking over the subways was to amount annually to \$536,259.27, continuing to the year 2024. This legislation also provided that the costs of retiring debts arising from new additions made to the subway system would also be assessed by direct charge on the cities and towns. As a result, the annual cost of subways and new construction, which in 1949 amounted to \$536,259.27, has now risen to \$744,592.61 in 1953.

It is the considered opinion of this department that this section of the law should be amended so that these costs would be included in the deficits reported annually by the Metropolitan Transit Authority, since the inclusion of such charges in the deficit would certainly have a tendency to restrain all future Trustees from unwise or excessive expenditures for such construction.

(a) Washington Street Tunnel and Tremont Street Addition: Chapter 649 of the Acts of 1949 authorized the Authority to construct additions to the Washington Street Tunnel from Haymarket Square to Sullivan Square at a cost not to exceed \$24,000,000.00 and from Boylston Street to Forest Hills at a cost not to exceed \$31,000,000.00. In addition, the same Chapter authorized the Authority to "construct and equip an addition to the existing Tremont Street Subway" at a cost not to exceed eleven and one half million dollars. Under this Act the Authority borrowed \$825,000.00 for preliminary surveys of the Washington Tunnel Additions and \$1,000,000.00 for a preliminary survey for the Tremont Street Addition. From these borrowings the Authority has spent respectively \$750,271.58 and \$781,868.26, leaving balances totaling \$292,860.16 that cannot be spent for other purposes unless authorized by new legislation.

Section 3 of Chapter 197, Acts of 1953, enabled the Advisory Board of the MTA to veto the above construction by inserting into Chapter 649 of the Acts of 1949:

"Section 6A. The authority shall not after the effective date of this section issue any bond for the purpose of providing funds for the construction of a project under this act unless the project shall have been approved by the advisory board established by chapter four hundred and four of the acts of nineteen hundred and fifty-two; provided, however, that neither the district nor the purchaser of any bond issued by the district shall be obliged to see to the application of the proceeds of any bond issued by the authority."

On July 3, 1953 the Board of Trustees authorized the General Manager to notify the engineering firm that the Advisory Board had exercised their legal prerogative and vetoed the construction of the addition to the Tremont Street Subway. As to the Washington Tunnel Additions, the Chairman of the Advisory Board ruled in effect that since the preliminary plans of these additions were beyond the authorization of the Legislature as to the amount and route, the preliminary plans were merely "informative" and it was not necessary for the Advisory Board to act.

The sad commentary on this subject is twofold:

(1) The management of the MTA has borrowed \$1,825,000.00 for these surveys that have come to naught, and since payments on the principal of these bond issues are at the rate of 1/75 annually, the management has emburdened the taxpayers of the MTA District for seventy-five years in the total amount of \$1,825,000.00 plus interest and has nothing to show for the expenditure.

(2) The burden on the taxpayers could have been eased in the amount of \$292,860.16, the unexpended balance of these borrowings, by proper financing as is being practiced by other governmental agencies, namely, by temporary financing until the full cost of the project is determined and only then issue permanent bonds. If this had been done, the taxpayers would have been burdened with \$1,532,139.84 rather than \$1,825,000.00.

Having come to this impasse with nearly \$300,000.00 on their hands with which nothing could be done, except possibly return the money to the Boston Metropolitan District, the management filed legislation which was enacted (Chapter 417, Acts of 1954) and became effective May 13, 1954, that made these funds available for other purposes.

In connection with the extensions of the present Washington Street Tunnel, our last report stated:

"In both instances, construction of these tunnels would add substantially to the taxable value of property abutting these elevated structures and therefore would increase income to the City of Boston, and in addition would provide substantial improvement and modernization to the areas of the City that are involved. In neither case, however, would any advantage whatsoever accrue to the Railway, since no additional revenue could be expected and there would be no appreciable savings in operating costs."



Under the present circumstances, this department agrees with the position taken by the Advisory Board, however, at the same time, we believe that the possibility still exists that worthwhile and necessary improvements to the Railway facilities of great value to the City of Boston, particularly as relates to the elimination of the elevated structure in Charlestown could undoubtedly be accomplished at a reasonable and practical cost. In this connection, attention is directed to the following excerpt from a letter which was forwarded to the Chairman of the Board of Trustees of the MTA by this department on October 6, 1953:

"The elevated structure could be removed in the Charlestown area at a minimum cost to the MTA. Property value to the City of Boston would be substantially enhanced, while, at the same time, an opportunity would be provided to extend rapid transit service to large areas of Somerville, Everett, and Malden, if either of the two following suggestions prove feasible:

- 1) Construct an MTA station under the North Station; continue the present rapid transit tunnel beyond Friend and Union Streets into this new station, continuing the tunnel under the B. & M. yards, surfacing in the railroad yards and continuing on the railroad right of way to a point near the present East Somerville station of the railroad. Such construction would eliminate the elevated structure in Charlestown and the station at Sullivan Square at a reasonable cost.

- 2) Combine the stations at Friend, Union and Haymarket Square, and have the present trolley car service stop at this new combined station. The rapid transit cars now proceeding by elevated structure to Sullivan Square and Everett would then proceed over the viaduct now used by trolley cars to reach Lechmere Square. Eliminate the present overpass and station at Lechmere Square and allow the rapid transit at that point to come to ground level in the B. & M. yards, and continue through the same yards to a point near or at the present location of the East Somerville station of the Boston and Maine Railroad.

"Under either of these arrangements, the MTA could also continue rapid transit from the new Lechmere Square site through Somerville over the B. & M. right of way to provide rapid transit service to a large area of Somerville. The extension of rapid transit could also be continued from the proposed MTA station at East Somerville over the Saugus branch right of way of the Boston and Maine Railroad to provide rapid transit service to Everett and to Malden.

"We agree that payment must be made to the Railroad for such occupancy, but the cost of such occupancy and contingent alterations would be far less than any suggestions hitherto raised to eliminate the Charlestown elevated structure. We believe that the advantages of mass transportation offered by rapid transit would by increased patronage and lower operating costs more than offset such expenditures. Certainly substantial savings in operating expenses could be expected for such extension through the elimination and reduction of expensive feeder service."

(b) East Boston Rapid Transit: As of December 31, 1953 there remained a balance of \$514,422.71 from the proceeds of the bonds issued to provide funds for this project, which was reduced to \$326,164.85 as of March 31, 1954. The cost of the East Boston Rapid Transit as of March 31, 1954 is as follows:

Funds Provided by City of Boston	
Borrowings	\$ 6,062,133 79
Funds Provided by MTA Borrowings	13,915,008 72
Total Funds Provided	\$19,977,142 51
Total Cost as of March 31, 1954	19,650,977 66
Balance March 31, 1954	<u>\$326,164 85</u>

It is understood that a bill will be filed in the 1955 Legislature to enable the Authority to use these funds for other purposes.

(c) Off-Street Parking: The Legislature has placed limits on the construction of off-street parking by limiting the issue of bonds for that purpose to \$1,500,000.00. To date the Authority has actually issued bonds amounting to \$675,000.00 yielding, at a premium \$677,043.97. The expenditures charged to this account amounted to \$129,984.65 as of December 31, 1953, leaving a balance of \$547,059.32.

On December 1, 1949 the Authority first borrowed \$150,000.00 for this purpose, and although they had a substantial balance left in that account, on March 1, 1953 they borrowed an additional \$525,000.00. On date of audit, they had on hand nearly \$550,000.00 in borrowed money to build parking areas, and they have no plans to build such areas. Elsewhere in this report we have recommended a change in the borrowing policies of the Railway. We need no better evidence than the above to demonstrate that the MTA should use temporary financing before a project is completed, and then, only after the cost of the projects are finally determined, should the Railway engage in permanent financing.

In addition to the \$129,984.65 expended for parking areas noted above, the management circumvented the legislation limiting off-street parking construction by charging costs amounting to \$223,318.76 for the Day Square and Orient Heights parking areas to the construction of the East Boston Rapid Transit Extension.

The total cost of constructing parking areas charged to bond proceeds actually, therefore, amounted to \$353,303.41 as of December 31, 1953.

(d) Extension to Revere: Of the \$3,000,000.00 statutory limitation for the extension of the East Boston Rapid Transit Extension to Revere, \$2,250,000.00 bonds were issued at a premium on March 1, 1953, the proceeds of which amounted to \$2,257,872.75, and expenditures to December 31, 1953 were \$1,706,226.07, leaving a balance of \$551,646.68.

The extension to Revere was first proposed in an audit report issued by this department, covering an examination of the accounts of the Authority for the calendar year 1950, which stated:

"Attention is directed to the fact that the MTA owns the rights of way of the former Boston Revere Beach and Lynn Railway from Orient Heights to Point of Pines, Revere. Normal and logical thinking should have indicated to the Trustees that extension on this right of way could be accomplished at a minimum cost. Such an extension would provide considerable improvement in service to the City of Revere, and, at the same time, add substantial revenue and decrease operating costs by eliminating most of the feeder service which will still be needed under the present limited extension."

From the time the Metropolitan Transit Authority was first created, we have consistently advocated the extension of rapid transit throughout the area now served by the Authority, but in every case we have insisted that the financial gains would be minimized if such extensions were not constructed under economical planning. In our last two reports we have protested vigorously the proposed costs of new stations on the Revere extension, and now it is a matter of public awareness that substantial funds have been wasted in the creation of this extension through the construction of elaborate and costly stations. Certainly the financial benefits that should accrue from this most desirable extension will be considerably lessened as the result of expenditures made in the erection of these stations.



Contracts and change orders thereon to December 31, 1953 for construction of these new stations were as follows:

Revere Beach Station	\$283,820 00
Beachmont Station	522,921 50*
Wonderland Station	213,904 30
Suffolk Downs Station	146,414 78

\*Includes cost of overpass

It is worthy of comment that many thousands of dollars in additional costs will accrue before construction is complete.

(e) Commonwealth Reimbursements: In discussing the extension to Revere, the previous audit report commented as follows:

" . . . The railroad right of way now owned by the Metropolitan Transit Authority is completely overpassed and underpassed throughout the whole length of the extension except at Beachmont, and in order to elevate the Beachmont station so as not to interfere with the orderly flow of automobile traffic will cost the Authority more than \$200,000.00. Elevation of the station and construction of the overpass has for its only purpose the elimination of a grade crossing for the benefit of the autoists, and it is believed that it would be entirely proper for the Metropolitan District Commission or the Department of Public Works to reimburse the Railway for the extra cost involved in overpassing this road."

In this connection, the following letter was forwarded to the Chairman of the Metropolitan District Commission by the General Manager of the Railway:

Mr. Charles W. Greenough, Chairman  
Metropolitan District Commission  
20 Somerset Street, Boston, Massachusetts

Dear Mr. Greenough:

Confirming our conversation over the telephone, the Board of Trustees could operate the East Boston Extension at grade across Winthrop Avenue. That was the situation when the Old Narrow Gauge Railroad was in operation.

It would, however, create a highway problem and our Board is anxious to learn whether the M. D. C. could advance the added expense involved by the M. T. A. constructing an overhead crossing at this point.

The elimination of any grade crossing is of course highly desirable but our Board questions the equity of the entire costs falling upon the M. T. A. deficit operations.

Will you please advise?

Very truly yours,

General Manager

We are unable to find any record at the MTA that this letter was ever replied to or even acknowledged by the Chairman of the M. D. C.

The following is a summary of other similar reimbursements collected from the Department of Public Works and the Metropolitan District Commission for expenses accrued by the MTA in connection with other public projects during 1953:

Public Works:	
Sullivan Square	\$152,689 17
Overpass (Prescott-Frankfort Sts.)	2,663 75
Atlantic Avenue Station	54,436 53
Revision (Main Line Elevated)	278,506 50
Underpass (Waverly Square)	33,991 41
Overpass (Orient Heights)	2,173 63
Overpass (Neptune Road)	156 27
Drainage Study	2 38
Total - Department of Public Works	<u>\$524,619 64</u>
Metropolitan District Commission:	
Forest Hills	\$ 6,152 55
Lechmere Square	126,661 02
Total - Metropolitan District Commission	<u>\$132,813 57</u>

(f) Cambridge-Arlington Extension: \$200,000.00 was provided by statute for a study as to the feasibility of this extension, and of this amount bonds were issued yielding at a premium, \$150,524.85. Expenditures have amounted to \$89,580.33, as of December 31, 1953 and the balance of these borrowings then amounted to \$60,944.52. Additional expenditures in 1954 amounted to \$15,559.72 and the balance on May 31, 1954 was \$45,384.80.

The results of the studies and engineering work completed indicate that if additional rapid transit facilities are to be built in Cambridge extending to Arlington, they should consist of a subway extending from Harvard Square in Massachusetts Avenue to North Cambridge and then on the surface, along the southerly side of the Fitchburg freight cutoff of the Boston and Maine Railroad to the Lexington Branch of the Boston and Maine Railroad, to land now under the control of the Metropolitan District Commission lying southerly of the Concord Turnpike and westerly of the Alewife Brook Parkway. The rapid transit extension would then follow the Lexington Branch of the Boston and Maine Railroad to Arlington Center and Arlington Heights.

The cost of the proposed extension as determined by study was estimated as follows:

From Cambridge to North Cambridge	\$24,000,000 00
From Cambridge to Concord Turnpike	31,000,000 00
From Cambridge to Arlington Heights	42,000,000 00

It is understood that the Trustees have decided not to ask for legislation to proceed with this extension.

Once more this leaves restricted funds hanging in the air, and, in this case, \$45,384.80 which will undoubtedly be added to other balances in a request to the Legislature to allow the MTA to use these funds for other purposes.

(g) General: In view of the fact that the Legislature has authorized expenditures amounting to \$5,000,000.00 for other alterations, it is suggested that balances of all bond proceeds be diverted only to other alterations and that the \$5,000,000.00 authorized for such alterations be reduced by the amount thus diverted. In no event should the Trustees be allowed to transfer such balances into the unrestricted cash of the Railway.

9. FUNDED DEBT: As of December 31, 1953, the principal amount of the funded debt of the Metropolitan Transit Authority amounted to \$134,451,780.24, while in addition there were temporary notes outstanding held by the Boston Metropolitan District, amounting to five million dollars. The deficit reported by the Railway for the 1953 year amounted to \$8,350,676.08, and of this amount \$5,175,883.78 represented the cost of interest and retirement of this debt, while an additional cost of \$744,592.61, not reflected in that deficit, was assessed directly upon the taxpayers of the cities and towns to pay the cost of retirement of the subway debt and new construction debt.

(a) Original Debt: During the year, the outstanding amount of this debt was reduced one million dollars to \$66,918,371.89 on December 31, 1953, representing the balance of the debt of the Boston Elevated Railway Corporation existing at the time that the road became publicly owned.



This department, from its study of the Elevated Corporation prior to public ownership, recognized the fact that this debt was being retired at an unreasonably rapid rate, which could and would cause excessive deficits and sizable fluctuations in assessments from year to year, and it was recommended at the time of purchasing the Railway that arrangements be made for an orderly, equitable and lengthy retirement of the debt. In the Public Purchase Act, this recommendation was ignored; however, Chapter 572 of the Acts of 1949 later revised the original public purchase statute, and this debt is now being retired at the rate of one million dollars a year, and since August 29, 1949 has been reduced four and one-half million dollars.

Costs to the Railway rising from this debt in 1953 amounted to \$1,000,000.00 in retirements and \$1,398,353.09 in interest.

(b) Subway Debt: Under the provisions of Chapter 572 of the Acts of 1949, the Metropolitan Transit Authority acquired title from the City of Boston to all subways used by the Railway. On August 3, 1949 the debt in connection with this acquisition amounted to \$40,219,445.43, and under the same orderly but lengthy procedures that were arranged for payment of the original debt, this debt also was to be retired annually at a fixed rate amounting to \$536,259.27 per year, so that as a result, on December 31, 1953 the amount of this debt had been reduced to \$38,074,408.35. All the monies used to reduce this debt came directly from the taxpayers of the District through direct assessment and was not reported in the Railway deficits.

In 1953 retirement of this debt cost the taxpayers \$536,259.27 in direct assessment, while interest costs of \$1,651,710.13 were included in the Railway costs.

(c) New Construction and Off-Street Parking Debt: This debt, as such, did not exist prior to 1949, however, since that time the MTA has been authorized to borrow \$76,200,000.00, and in that connection the Railway has actually issued \$19,150,000.00 in bonds. Costs of interest on this debt, in 1953, amounting to \$282,480.58 were included in the deficit reported by the Authority, but the cost of retirement which last year amounted to \$208,333.34 was assessed directly upon the taxpayers of the cities and towns of the District and not reflected in the deficit reported.

It has been the considered and consistent opinion of this department in all of its reports that to provide the Authority with the license and the authority to expend money, which the Authority is not compelled to repay, tends to extravagance in the expenditure of these funds, and we recommend again that legislation be enacted to include the entire cost of this debt in the costs of the Railway.

(d) Revenue Equipment Debt: By statute which became effective on August 2, 1947, the MTA was originally authorized to borrow up to \$10,000,000.00 for the purchase of new equipment. The Act further provided that there would be no further depreciation of the rolling stock of the Railway and that the \$10,000,000.00 thus provided would operate as a revolving fund so that the Trustees, whenever vehicles became outmoded or inoperative, could use the revolving balance in the fund to replace a particular vehicle or a group of vehicles. The amount thus authorized to be outstanding at one time was raised from \$10,000,000.00 to \$15,000,000.00 later by the Legislature. As of December 31, 1953, the Authority had issued \$13,007,000.00 in bonds under this section.

The money borrowed under this title has previously been actually expended for the purchase of rapid transit cars, surface cars, trackless trolleys and motor coaches. However, on March 1, 1953 the Trustees borrowed \$1,545,000.00 which they placed in the cash of the Railway, stating that the money had already been expended in connection with rolling stock from the regular funds of the Railway, and this borrowing, therefore, was used to replenish the cash of the Authority.

During 1953 retirement of this debt cost the Railway \$656,000.00 while interest costs totaled \$187,339.98.

10. ROLLING STOCK: In this connection, our previous report stated:

"We have contended in our reports that the number of vehicles owned by the Railway was in excess of their actual needs . . ."

During the calendar year 1953, a reduction was made in the rolling stock of the Railway, as follows:

	<u>December 31, 1952</u>	<u>December 31, 1953</u>
Surface Cars	609	507
Rapid Transit Cars	503	478
Trackless Trolleys	440	443
Buses	531	543
Total Vehicles	<u>2,083</u>	<u>1,971</u>

The following is a summary of transactions during the year 1953:

	<u>Purchased</u>	<u>Disposed of</u>
Surface Cars	-	102
Rapid Transit Cars	-	25
Trackless Trolleys	16 (used)	13
Buses	35	23
Total Vehicles	<u>51</u>	<u>163</u>

While this represents a net reduction of 112 vehicles attention is directed to the fact that revenue miles operated by the Railway was reduced in 1953 by 2,302,029 miles.

**11. PASSENGER AUTOMOBILES:** The previous audit report stated:

"It is the contention of this Department that a survey should be made to determine which of these cars are needed, and that all others should be disposed of, since if the Trustees and executives are satisfied with the transportation that they are providing to the taxpayers of the District who are paying their salaries, then the same service should be adequate and satisfactory for their own use."

On December 31, 1952, the MTA owned and operated forty-two passenger cars, and on December 31, 1953 this number had been reduced to twenty-seven and reflects a net reduction of fifteen passenger cars during the year.

During the year 1953 the Railway purchased twenty-three new passenger cars and disposed of thirty-eight. The book value of the twenty-seven passenger cars owned by the MTA on December 31, 1953 amounted to \$44,208.44.

**12. RENTAL OF PARKING AREAS:** During the year 1953 the MTA received as income from rental of parking areas a total of \$15,292.14. Of this income \$8,333.34 came from one large contract which the MTA now has with a concessionaire who has rented various locations throughout the MTA system at a yearly basic rental of \$50,000.00 and represents payments for two months.

In addition to this money received from this concessionaire, there was further income to the MTA as a result of this contract amounting to \$18,534.30 for fare tickets sold in connection with parking tickets by this concessionaire. Actual operation of this large contract began on November 1, 1953.

**13. RETIREMENTS:** The present retirement board was created originally following public purchase, as a result of an agreement between the Authority and the Amalgamated Union, and this system has since been extended to cover other employees of the Railway.

The position of this department with regard to the retirement system is well-known, in fact, in our original report of an examination of the Boston Elevated Railway before the creation of the Metropolitan Transit Authority we said in speaking of the Railway retirement system:

"Elevated employees at present are retired under two schemes, and neither is worthy of being described as a retirement system. These systems apparently operate without financial reserves and are not based on any actuarial tables. Payments to retire these employees can best be described as mere pittance, . . . ."



In referring to the retirement of executives, the report stated:

"While pension payments to officials and executives are included in the Company Pension Plan, all rules and regulations that guide the calculation of retirement allowances to ordinary employees are completely ignored in granting these pensions. Pension allowances to executives are set by a vote of the Board of Trustees, . . . ."

The following is a summary of payments charged to cost of service by the MTA in connection with retirements and other benefits:

	<u>1950</u>	<u>1951</u>	<u>1952</u>	<u>1953</u>
MTA Retirement Fund	\$1,383,363 64	\$1,457,289 78	\$1,528,032 26	\$1,726,292 97
Paid Pensions to Former Employees, etc.	151,144 40	165,288 87	172,343 39	159,915 98
Health and Accident Insurance	71,171 99	82,915 28	115,705 70	130,163 52
Pension Plan Provided by Ch. 601, Acts of 1950. Applying to Disabled Veterans with Permanent Civil Service Status (Formerly City of Boston Employees)	-	1,884 55	2,874 63	5,382 42
Social Security Taxes	-	429,629 72	402,038 22	382,131 68
Totals	<u>\$1,605,680 03</u>	<u>\$2,137,008 20</u>	<u>\$2,220,994 20</u>	<u>\$2,403,886 57</u>

Until February 1, 1953 the MTA's contributions to the retirement fund amounted to 5% of the employee's pay and the Authority contributed an additional 5%. On February 1, 1953, both the employee's and the MTA's contribution was raised to 6%.

It has been the consistent opinion of this department that the contributions made by the employees and the MTA are above those ordinarily required of a retirement system, and while the Authority itself gives the opinion that the increase in contributions initiated February 1, 1953 came as a result of additional benefits it is fairly obvious that the substantial number of retirements are at least partly responsible for this increase.

(a) Executives: In this connection, the previous audit report stated:

". . . that the officials and Trustees of the road, who, previous to the establishment of the Retirement system were retired by vote of the Trustees without any contributions whatsoever, that these same officials have taken advantage of the fact that the Legislature ordered a retirement system to be set up and now have included themselves under its most generous provisions."

"It certainly is normal for any individual or group of individuals joining a retirement system that they be required to make up the contributions for the period of their service for which no contributions were made. Under the present system the retirement of the officials represents a distinct drain on the funds of the retirement system."

Attention is directed to the fact that employees on the weekly pay roll, for many years prior to the adoption of the retirement system, had contributed regularly a percentage of their salaries to maintain the financial stability of the previous system. During all the time that these employees on the weekly pay roll were making these contributions, the officials on the executive pay roll made no such contributions.

For these reasons we reiterate our previous recommendations that those officials on the executive pay roll of the Railway who come under the generous provisions of the new retirement act should be required to make up contributions for the period of their prior service, at least to the same extent that all other employees contributed to the old system.

(b) Retirement Age: During the past year 8 officials and 521 employees were retired, and while we are not permitted to audit the accounts of the retirement system, it becomes immediately obvious that this substantial volume of retirements at an earlier age than was originally planned in setting up the system constitutes a great drain on its funds.

Early in 1952 the minutes of the Trustees meetings had voted that MTA employees would retire at the age of seventy and that employees sixty-five or over who were physically incapacitated to perform their regular duties would also be retired. At a meeting of the present Trustees held on April 27, 1953 it was declared the policy of the Board to retire all employees at the age of sixty-five, with such exceptions as may be approved by a vote of the Board.

On September 17, 1953 the Trustees voted to continue eight employees in service beyond age sixty-five, but by June 14, 1954 all of these men had been retired and the only employees over sixty-five remaining on the MTA pay roll were the General Manager and an attorney.

If all the facts are taken into consideration regarding the administration of the present Trustees, it would appear that their consistent contraction of service accompanied by lay-offs and early retirement are not economical. This policy has certainly resulted in a substantial reduction in passenger revenue and the fact must also be considered that costs of the Railway's contributions to the retirement system have necessarily increased under this same policy.

(c) Non-Contributory Pensions: Previous audit reports issued by this department have covered in detail the various plans under which MTA and Boston Elevated Railway employees have retired. In one of those reports, we commented on the fact that under the old company pension plan over 80% of the employees retired under that plan were receiving pensions of only \$40.00 a month. This situation was later slightly improved by the Trustees who raised the minimum amount to employees retired under this plan to \$50.00 a month. For the month of January 1953, there were 212 persons pensioned under this so-called company pension plan, and 183 of these pensioners were receiving the minimum pension.

It is worthy of comment that on January 7, 1953 the Trustees of the MTA voted to again raise this minimum pension allowance to \$55.00 a month. We believe these allowances should be substantially increased, for these pensioners are former long time employees of the Railway, who were retired before the present system was installed and we can point out by comparison the retirement of one executive soon after the adoption of the new system at a pension nearly twenty times greater than the pensions paid to these former employees.

14. EXECUTIVE PAY ROLL: On December 31, 1952, the monthly pay roll of the Railway included 120 executives and on December 31, 1953 the number had been decreased to 107. During the year 1953, sixteen people were removed from the executive pay roll, principally because of retirements, and three people were transferred from the weekly pay roll to the executive pay roll to fill certain vacancies.

Special salary increases in the total amount of \$18,300.00 annually were authorized by the Trustees during 1953 for seventeen executives, while a general salary increase of \$150.00 annually was granted to all salaried employees receiving between \$4,000.00 and \$7,775.00 a year at a meeting held on August 14, 1953, and this increase was made effective August 1, 1953.

For the month of December 1952, the executive pay roll totaled \$75,129.56, while for the month of December 1953 it had decreased to \$69,997.88 showing a net decrease of \$5,131.68. The following is an analysis of these changes:

Decreases:		
Retirements, Etc.	\$8,764 04	
Salary Reductions (Gross)	343 75	
Total Decreases		\$9,107 79
Increases:		
Specific Salary Authorizations (Net)	\$1,478 19	
Transfers from Weekly Pay Roll (Net)	1,497 92	
General Salary Increase of \$150.00		
Per Annum or \$12.50 Per Month	1,000 00	
Total Increases		3,976 11
Net Decrease		<u>\$5,131 68</u>



The cost of this executive pay roll does not include payments of \$10,607.22 made during the year 1953 to certain consultants hired by the Trustees, one of whom worked as Director of Publicity in the conduct of public relations work from June 1 to December 31, 1953 at a cost of \$5,692.26, and the other as Special Representative of the Board of Trustees from May 1, 1953 to December 31, 1953 at a cost of \$4,914.96.

15. **RESERVE FOR INJURIES AND DAMAGES:** In connection with this reserve, the previous audit report commented:

"The facts are that this reserve grew from \$885,800.68 on January 1, 1946 to \$1,880,202.51 on December 31, 1952 which would certainly seem to indicate that charges to the cost of service for such purposes had been excessive since this reserve increased almost a million dollars in a period of seven years.

"We do not believe that such a reserve is necessary for a governmental agency, and have called attention to the fact that no other governmental agency maintains such a reserve. We have further contended that although the taxpayers have been charged annually as much as \$1,575,000.00 to provide this reserve, the entire reserve now exists only on paper because the Trustees have expended the funds thus reserved for other purposes. We stated in our report that it was obvious that the Trustees could not be relied upon to maintain such a reserve and we recommended that it be eliminated and the Railway placed on a cash basis."

During the year 1953, the costs of maintaining the department of the Authority, charged with the responsibility of handling injury and damage claims, amounted to \$433,013.09, and, this includes \$29,603.14 paid to private attorneys for services rendered the Legal Department during the year, while the cost of injuries and damages paid during the year amounted to \$1,386,114.92. The present Trustees have apparently recognized the validity of our previous objections to the size of the reserve for on December 31, 1953, the balance in the reserve was reduced to \$1,694,087.59 from a high of \$1,880,202.51 on December 31, 1952.

While this is a step in the right direction, we still reiterate the recommendation made in connection with this reserve in our last report which was as follows:

"That the reserve be abolished and that all charges for injury and damages be placed on a cash basis."

This recommendation has thus far been ignored, and it would seem that none of the successive managements during seven years operations of this governmental agency apparently realizes that the Railway is no longer a corporation organized for the benefit of its stockholders, but is a governmental agency organized for the benefit of the taxpayers of the Metropolitan District. The management still acts as if it were operating a private organization designed to make profitable returns on the investments of its shareholders for they could, without damage to the service or the financial position of the Authority, perform a great service to the taxpayers and lighten the burden of MTA costs by eliminating this reserve. Under this arrangement any monthly charge for accidents to the cost of service could not be excessive because liabilities in excess of \$50,000.00 or under \$2,000,000.00 for any one accident is now covered by private insurance companies.

16. **BORROWING POLICIES:** In this connection, the previous report recommended:

". . . that in the future, when such construction is undertaken, that rather than borrowing immediately the full amount authorized by the General Court as the previous Trustees have done, that the Authority borrow money under temporary notes as needed until such a time as the project involved is completed and the financial cost is determined, at which time bonds will be issued in the exact amount of the cost of construction of the facility and the temporary notes would then be retired."

As the result of the policy of the previous and present Trustees to make all such borrowings under permanent bonds, attention is directed to the following:

(1) A total of \$825,000.00 was originally borrowed through a bond issue for preliminary plans for the Washington Street Tunnel, and when this planning was halted there was a balance of \$74,728.42 remaining, which has now -- with the approval of the Legislature -- been used for other purposes.

(2) One million dollars was borrowed in permanent bonds for preliminary plans for the addition to the Tremont Street Subway. Of this amount, \$218,131.74 remained unexpended when the preliminary planning was stopped, and again with the approval of the Legislature this balance has been used for other purposes.

(3) A total of \$13,915,008.72 was borrowed under permanent financing for the East Boston Rapid Transit, and as of March 31, 1954 there remained an unexpended balance of \$326,164.85. While there appears to be a few unsettled claims which may further reduce this balance, the fact remains that a substantial sum will be left from this project, and there is little doubt but that the present Trustees will seek legislation in 1955 to use this money for other purposes.

(4) From funds borrowed originally for alterations by the City of Boston and subsequently transferred to the MTA as provided in Section 8A of Chapter 544 of the Acts of 1947, there remained a balance of \$72,749.05. This money was applied by the MTA to other alterations.

This same condition arises so frequently that it seems that it has been almost a plan to provide extra cash through such borrowings, as is evidenced by the following summary of funds that have become available to the Railway for purposes other than those for which the funds were originally borrowed as a result of excessive borrowings under permanent bond issues:

Washington Street Tunnel	\$ 74,728 42
Tremont Street Subway	218,131 74
East Boston Rapid Transit	326,164 85
Alterations	72,749 05
Parking Areas	547,059 32
Cambridge - Arlington Extension	45,384 80
Total	<u>\$1,284,218 18*</u>

\* Does not include balances from Revere Extension borrowings.

We reiterate our original recommendation that borrowing in connection with any project be done originally under temporary notes until the final cost of the project is determined, at which time the Railway would borrow under permanent bonds the exact cost of the facility erected and with those funds retire the temporary notes.

17. SNOW REMOVAL: The following excerpt is taken from the minutes of the meeting of the Trustees held on August 14, 1953:

"A form of letter to be sent by the Chairman to the Mayors and Chairmen of the Board of Selectmen of the cities and towns served by the Authority informing them that the Authority can no longer perform snow-plowing work on public highways, except those where street cars operate, was approved."

We disagree with this decision of the present Trustees, since it has no effect whatsoever on the costs to the taxpayers. The snow on the various highways used by the Railway must be removed if transportation is to be continued in inclement weather, and it makes little difference to the taxpayers whether it is done by the MTA or the city or town concerned. In either event, the cost of snow removal will be included in his tax bill, and it would appear that the MTA itself --- with a knowledge and experience of its own problems, operating schedules, and the peculiar needs of their own vehicles in snow -- would be better equipped to do this work themselves and probably could do it more economically.

The single consistent policy that has dominated the administration of all Trustees of the MTA, past and present, is the continued effort to transfer certain Railway costs to the cities and towns of the District and to thus minimize reported deficits. The decision of these Trustees in the matter of snow removal is an example.



Other complications arose also as a result of this change in policy, since the previous Trustees had already issued purchase orders on March 18, 1953 calling for the purchase of seven snow fighters equipped with sand spreaders, snow plows, etc., to cost \$25,795.00 each or a total cost of \$180,565.00 and four sand spreaders to cost \$27,760.00 and a sand dryer to cost \$6,370.00. Following the adoption of this "no snow removal" policy, the new Board of Trustees made several unsuccessful attempts to cancel these purchase orders but were compelled by the vendors to accept delivery.

18. **MAGAZINE "CO-OPERATION"**: For some time now, the Authority has published at irregular intervals during the year a magazine called "CO-OPERATION". In connection with this magazine, our previous audit report stated:

"It is recommended to the Trustees that an honest appraisal be made of the value of this magazine to determine whether or not its publication should be continued."

The minutes of the Trustees' meetings during the year 1954 were examined to determine whether or not any official opinion has been expressed by them as to the publication of this magazine, and while no references to the matter were found in these minutes, it is worthy of comment that since the new Trustees took over, no issues of this magazine have been made. During the year 1952, three issues were made of this magazine at a cost of \$14,866.11, while in 1953 one issue was printed previous to the appointment of the present Trustees at a cost of \$2,923.80. Attention is directed to the fact that the amounts quoted herein cover only the actual publishing costs, since the salaries and wages of the employees of the Railway who compile and edit the magazine are not included in these costs.

19. **USE OF MTA FACILITIES BY OTHER SYSTEMS**: In this connection, our previous audit report stated:

"The common use of facilities constructed by and at the expense of the Authority by other transportation companies without charge for the use of these facilities is not reasonable. Such facilities are mutually advantageous to the MTA and to the company or companies involved, and it is the opinion of this Department that a more equitable distribution of the cost of maintaining these facilities should be attempted."

At a meeting of the Trustees held on May 8, 1953, it was voted:

"That the General Manager be and he hereby is authorized and instructed to arrange a conference with representatives of all private bus or street railway companies who use the facilities of the Authority for the pick-up and discharge of passengers for the purpose of reaching a mutually satisfactory agreement under which they will compensate the Metropolitan Transit Authority for the said use of such facilities."

A meeting of the Trustees held on August 28, 1953, voted as follows on this matter:

"That the General Manager be and he hereby is authorized in the name of and behalf of the Authority to give written notice, in form approved by the General Counsel to carriers whose vehicles enter upon the premises of the Authority for the purpose of discharging and/or receiving passengers thereon, that existing agreements relative to the use of such premises shall terminate on November 1, 1953, unless prior to that date such agreements are changed so as to provide for a charge of twenty-five cents for each bus trip over such premises, or in lieu thereof an appropriate monthly charge, a bus trip being every time a vehicle enters in, upon or over such premises."

On October 23, 1953 the Trustees weakened in their demands when they voted:

"That the General Manager be and he hereby is authorized in the name and behalf of the Authority to give written notices in form approved by General Counsel to carriers whose vehicles enter upon the premises of the Authority for the purpose of discharging and/or receiving passengers

thereon due to the approach of inclement weather and insufficient time to reach an understanding on this matter, and in order not to discommode passengers of the Authority and said carriers, the date for termination of existing agreements relative to the use of such premises shall be deferred to May 1, 1954 instead of November 1, 1953."

Finally on April 9, 1954, the Trustees in this connection voted as follows:

"That the vote of this Board of August 28, 1953 authorizing the General Manager to terminate on November 1, 1953 Agreements with carriers whose vehicles enter upon our premises be, and the same hereby is rescinded.

"That the vote of this Board of October 23, 1953 authorizing the General Manager to extend the date for termination of existing agreements with carriers whose vehicles enter upon our premises from November 1, 1953 to May 1, 1954, be, and the same hereby is rescinded.

"That the General Manager be, and he hereby is, authorized, in the name and behalf of the Authority, to give written notice, in form approved by General Counsel, to carriers whose vehicles enter upon the premises of the Authority for the purpose of discharging and/or receiving passengers, that the notice terminating the existing agreements heretofore sent to said carriers are cancelled, and that the said agreements shall remain in force after May 1, 1954."

The Trustees have apparently completely reversed their original position, and are now willing to continue to grant free use of their facilities to other railways.

## 20. ADVERTISING TO PROMOTE TRAFFIC: Our previous audit report stated:

"... no concerted attempt has ever been made to point out the advantages and economy of mass transportation. This Department believes that the facts should be brought to the attention of the public; that the use of private automobiles for daily transportation into Boston not only is more expensive than the use of MTA facilities, but that the motorist in addition to his own costs is also contributing to the deficit of the Railway which he must also pay."

On February 4, 1953 the MTA Trustees authorized an appropriation of \$20,000.00 for routine advertising, and on August 28, 1953 the present Trustees voted to cancel this authorization of their predecessors insofar as the unexpended balance was concerned, and appropriated the sum of \$30,600.00 for advertising for the period between August and December 1953. In this connection, the Trustees authorized an agreement with a local advertising agency under which the advertising agency would be billed for the cost of all advertising prepared and placed in newspapers, radio, etc., and then the agency would in turn bill the MTA for the cost thereof. For the calendar year 1953, the costs of the MTA for advertising to promote traffic amounted to \$38,253.09. Of this amount, the total MTA costs amounted to \$29,879.87 under the contract with the private agency mentioned above.

## 21. FEDERAL TAXES:

On the balance sheet of the Metropolitan Transit Authority on December 31, 1952 there appeared an asset listed under the title "Claim for Refund of Prior Years Income Tax" in the amount of \$591,972.56. During the year 1953, this case was settled with the Federal Government, and as a result the Railway received from the Federal Government the full amount of \$591,972.56 plus interest amounting to \$234,230.70. Payment of the principal amount did not affect the 1953 deficit, however, it did improve the cash position of the Railway and the interest of \$234,230.70 reduced the 1953 deficit by exactly that amount.

On the liability side of the same balance sheet, there appeared an item entitled "Provision for Additional Prior Years Federal Income Taxes" in the amount of \$750,000.00. This case was also settled during the year 1953, and it was determined that the tax deficiency of the MTA amounted to \$133,781.61 plus statutory interest of \$41,626.24, and as a result the MTA paid to the Federal Government \$175,407.85. The balance in the reserve amounting to \$574,592.15 was applied in reduction of the cost of service for the year 1953.



22. **OFFICE SPACE:** For the calendar year 1953 rental at the Park Square Building for the general offices of the Authority amounted to \$129,657.00, and it included area on both the sixth and seventh floors of the Park Square Building plus storage space in the basement. Annual rental charges for office space on the sixth floor amounted to \$21,838.80, and in May of 1954 the MTA gave up this space. It is estimated, as a result, that savings on rental charges for 1954 will amount to approximately \$12,000.00 while in 1955, the first full year, costs will drop to approximately \$108,000.00.

This department feels quite strongly that continuance of the rental of this space is an extravagance which the MTA cannot afford, and in connection with this fact, a previous audit report stated:

"In view of the fact that the Authority is now exempt from real estate taxes, substantial savings could result from erection of a building to house the main offices of the Metropolitan Transit Authority."

We believe this recommendation to be valid.

23. **DETECTIVE AGENCY:** Investigators of a certain private detective agency work throughout the MTA system, and each individual investigator thus employed is assigned a number by the Authority and his reports are submitted only under his number and bear no signature. These investigators report daily to the MTA, and these reports are received and examined by the Treasurer-Comptroller's office exclusively, and include the time spent by the investigator, the vehicle number, the employee's number, the run number, the Division, the business transacted by the operator and the fares paid by the investigator, plus any comments which the investigator might make regarding any infractions of the rules and regulations which he may have noted. Weekly billings are made to the MTA, and this is paid by the cashier on a memorandum receipt. At the end of the month, the total payments are vouchered and the cashier's working fund is then reimbursed. For the year 1953, the cost of this service amounted to \$19,323.00.

24. **CONCESSIONS:** Income from concessionaires for the year 1953 totaled \$961,102.97. This income consists of station and advertising privileges, miscellaneous tenant agreements, rent of buildings and other properties, income from miscellaneous physical property and rent of facilities. Accountants from the MTA verified all of this income, with the exception of \$16,053.03 which was collected from the telephone company.

During the course of this audit, the accounts of two of these concessionaires were examined by this department and the income verified.

## BOSTON METROPOLITAN DISTRICT

REPORT NO. 54-90

**Audit:** The report of this examination is being issued in connection with a current audit of the Metropolitan Transit Authority which is now in progress and covers the period from January 1, 1953, the date of the previous audit, to December 31, 1953.

During this period the Boston Metropolitan District issued bonds and notes totaling \$12,781,000.00. The first issue for \$1,983,000.00 was for the purpose of refunding certain maturing obligations of the District. The proceeds of the remaining three bond issues and notes were used to purchase bonds and notes of the Metropolitan Transit Authority. The detail of these issues is submitted below.

On March 2, 1953 the District, under authority of Section 7A, Chapter 544 of the Acts of 1947, as amended, issued \$1,983,000.00 coupon bonds of 1953 Series A Bonds, bearing interest at 2 3/4% per annum, dated March 1, 1953, and maturing December 1, 1962 - 1983. The proceeds of this issue were used for refinancing those obligations of the District which were to mature between March 1, 1953 and August 15, 1953 and could not be met by the application of the \$500,000.00 payment by the Metropolitan Transit Authority on June 1, 1953 in reduction of the principal of the \$71,418,371.89 Authority Bond dated August 3, 1949, and held by the District. The bonds were sold at a price of \$1,989,938.80 and accrued interest of \$151.48. The premium of \$6,938.80 and the accrued interest of \$151.48 were paid to the Metropolitan Transit Authority.

On March 2, 1953, the District under Authority of Section 8A (j), Chapter 544 of the Acts of 1947, as amended, issued \$1,125,000.00 coupon bonds, 1953 Series B Bonds, bearing interest at 2 3/4% per annum, dated March 1, 1953 and maturing March 1, 1954 - 1983. With the proceeds of this sale the District purchased a \$1,125,000.00 bond of the Metropolitan Transit Authority, bearing interest at 2 3/4%, to mature on March 1, 1983. There was paid for the bond the exact amount received by the District on the sale of its

own bonds - \$1,128,936.37 plus accrued interest of \$85.94. This bond issue was for the purpose of providing additional funds for completion of East Boston Rapid Transit Extension and for establishment of off-street parking facilities.

Again on March 2, 1953 the District, under authority of Section 6 of Chapter 649 of the Acts of 1949, as amended, issued \$2,400,000.00 1953 Series D coupon bonds, dated March 1, 1953 and due March 1, 1954 - 1983, bearing interest at 2 3/4%. These bonds were sold for \$2,408,397.60 with one day's accrued interest of \$183.33. With the proceeds the District purchased a \$2,400,000.00 bond of the Authority to mature March 1, 1983 bearing interest at 2 3/4%. A premium of \$8,397.60 and accrued interest of \$183.33 were paid the Authority. The purpose of this bond issue was to provide funds for extension to Revere of the existing East Boston Rapid Transit Extension and for preliminary plans and estimates as to the extension of rapid transit facilities in Cambridge and Arlington.

In addition to the above on March 2, 1953 under authority of Section 22, Chapter 544 of the Acts of 1947, as amended, the District issued \$2,273,000.00 coupon bonds, 1953 Series C, dated as of March 1, 1953, due March 1, 1954 - 1973 bearing interest at 2 1/2%. These bonds were sold for \$2,280,953.23 with one day's accrued interest of \$157.85. With the proceeds the District purchased serial bonds of the Authority as follows:

\$1,545,000 00 serial bonds bearing interest at 2 1/2% to mature March 1, 1973  
 562,000 00 serial bonds bearing interest at 2 1/2% to mature March 1, 1963  
 166,000 00 serial bonds bearing interest at 2 1/2% to mature March 1, 1964

The District paid a premium of \$7,953.23 and one day's accrued interest of \$157.85. The purpose of this bond issue was to provide funds for purchases of, and capital additions and improvements to, equipment or for reimbursement for expenditures for such purposes.

In order to provide the Metropolitan Transit Authority with temporary financing, the District issued during the 1953 calendar year two notes totaling \$5,000,000.00. With these proceeds it purchased two Authority notes in similar amounts.

The first issue was for \$2,000,000.00 on July 7, 1953 becoming due on May 1, 1954 and the second issue was for \$3,000,000.00 on October 1, 1953 and will also be due May 1, 1954.

Prior to each of the aforementioned transactions a letter was received from the Metropolitan Transit Authority, requesting that the District purchase a temporary note of the Authority. It was also noted that the Trustees held duly called meetings in connection with each of the two issues as was indicated by its minute book. At these meetings consideration was apparently given by the Trustees to the financial reports and cash estimates which had been furnished it by the Authority before the issuance of the District notes. In the indicated two instances bids were requested and it appeared that awards were made to the bidder offering the most advantageous price. However, it was noted that only one bid was received on the first issue and this bid was accepted only after an investigation indicated that to delay further would put the Metropolitan Transit Authority in an acute financial position. The status of the money market was such that no saving could be accomplished by readvertising for bids and possibly the cost would be larger.

The issue of these notes by the Metropolitan Transit Authority and their subsequent purchase by the District is authorized by Section 13 of Chapter 544 of the Acts of 1947, as amended.

**Receipts Under Rapid Transit Bond:** On November 20, 1953 the District received the fourth installment of \$536,259.27 under the terms of the \$40,219,445.43 Rapid Transit Bond of the Authority held by the District. Amounts received in reduction of the principal amount of this bond are deposited in a separate account where they are held to meet payments required on the Rapid Transit Bonds of the District. Pending the use of these funds for this purpose they may be invested as provided by Section 11 of Chapter 383 of the Acts of 1929. During the 1953 year the District made such investments in United States Treasury Bills. As of December 31, 1953 cash totaling \$1,843,017.62 was invested in U. S. Treasury Bills with a maturity value of \$1,850,000.00. As of the same date there was \$4,347.81 of uninvested cash on deposit in the National Shawmut Bank of Boston. Section 8A (c), Chapter 544, Acts of 1947, as amended, provides that income earned on this fund is to be paid to the Metropolitan Transit Authority. During the year 1953, the District paid to the Authority in this connection a total of \$26,473.02.



The following data is from a schedule prepared by the MTA for use of the District Trustees. This schedule indicates the payments which will be required to the City of Boston through the year 1959.

**Boston Metropolitan District Funds  
Applicable to City of Boston Transit Debt**

Year	November 20, Payment from M. T. A.	B. M. D. 3/4% Bond Maturing November 24, 1950	Payments to City of Boston	Cumulative Balances B. M. D. Fund
1950	\$ 536,259 27	\$297,671 65*	-	\$ 238,587 62
1951	536,259 27	-	-	774,846 89
1952	536,259 27	-	-	1,311,106 16
1953	536,259 27	-	-	1,847,365 43
1954	536,259 27	-	-	2,383,624 70
1955	536,259 27	-	-	2,919,883 97
1956	536,259 27	-	-	3,456,143 24
1957	536,259 27	-	\$ 887,000 00	3,105,402 51
1958	536,259 27	-	1,300,000 00	2,341,661 78
1959	536,259 27	-	2,500,000 00	377,921 05
	<u>\$5,362,592 70</u>	<u>\$297,671 65</u>	<u>\$4,687,000 00</u>	<u>\$377,921 05</u>

\* Refunding bond dated December 1, 1949 and maturing November 24, 1950 was issued to obtain funds to meet principal payable by the District on December 15, 1949.

It is obvious that this fund will accumulate until the end of 1957 before any principal payments therefrom will be required. It is suggested that the Trustees consider the advisability of investing in long term securities such as United States Treasury Bonds or Notes which bear higher interest rates than United States Treasury Bills.

**Legal Services in Connection with Bond Issues:** The District employs at considerable expense the services of a legal firm to handle certain matters in connection with new bond issues. It is suggested that the Trustees avail themselves of the facilities of the Department of the Attorney General as an economy measure.

**Policy of Board Regarding Artificially High Interest Rates:** The following paragraph is an excerpt from the minutes of the meetings of the Board of Trustees which was held on September 23, 1953:

"The chairman brought before the Board the matter of an inquiry that had been made of the District as to whether or not at future offerings of District securities a bid would be entertained bearing an artificially high rate of interest with a premium above par, calculated to reduce the net interest to be paid on obligations of the District to an amount that conceivably might make such a bid the lowest bid to be received. Mr. ---- stated that he had studied this matter and taken the advice of counsel with respect to it and had come to the conclusion that such a transaction would be profitable to the bidders only at the expense of the Bureau of Internal Revenue. In other words, the bidders would be able to perform their part of the transaction through a tax maneuver. The attorneys for the District stated they had been considering the matter at the request of Mr. ---- and would be glad to know the animus of the Trustees with respect to such a transaction. After discussion among the Trustees, and upon motion duly made and seconded, it was unanimously

**VOTED:** That it is the policy of this Board that none of its obligations be issued bearing an artificially high rate of interest in connection with their sale at a premium above par."

directly connected with the operation of the Metropolitan Transit Authority since all of the officers and directors of the Transit Mutual Insurance Company are salaried employees of the Metropolitan Transit Authority. Since December 1947 none of the trustees or employees of the Metropolitan Transit Authority has received a salary for duties performed as officers or directors of the Transit Mutual Insurance Company, and in addition, it was voted on January 27, 1949 to abolish the director's fee of five dollars for attendance at regular meetings of the Insurance Company. The only income producing policy written for workmen's compensation is that of the Metropolitan Transit Authority and policies for general liability insurance are written only to permit the directors and officers of the Company to be policyholders as required in the Bylaws, and these latter policies are reinsured with another company.

**Reinsurance:** Under a "Reinsurance Agreement" which became effective April 1, 1949, this Company was reinsured on losses between \$25,000.00 and \$500,000.00 for any one accident or series of accidents arising out of any one event. Effective November 15, 1950 the coverage under this reinsurance agreement with the Peerless Casualty Company was changed by endorsement to \$50,000.00 up to \$500,000.00. Effective January 1, 1953 this reinsurance was taken over by the Liberty Mutual Insurance Company on losses in excess of \$50,000.00 up to \$450,000.00.

Prior to 1951 the total premium for this reinsurance was 1/2 of 1% of the net premiums written. Effective January 1, 1951 the total premium was increased to 2% of the net premiums written. Statutory increases in benefits under the Workmen's Compensation Act were apparently factors in this increase of the rate.

**Reserve for Workmen's Compensation Losses:** The total of the Reserve for Workmen's Compensation Losses as at December 31, 1953 consists of the following:

Loss Reserve (Case Basis)	\$455,216 93
Loss Adjustment Expense Reserve	10,000 00
	<u>\$465,216 93</u>

**Dividend Declaration:** On November 10, 1953 the Directors voted to declare a dividend of \$50,683.61 on workmen's compensation business to be paid to the Metropolitan Transit Authority in January 1954. This dividend plus the premium discount of \$49,316.39 paid during the year on the 1952 and 1953 policies would amount to \$100,000.00, the amount of the dividend paid to the Metropolitan Transit Authority in January 1953. There were no dividends declared to other policyholders in the year 1953.



NEW BEDFORD, WOODS HOLE, MARTHA'S VINEYARD AND  
NANTUCKET STEAMSHIP AUTHORITY

Section 14 of Chapter 544 of the Acts of 1948 provides in part as follows:

"SECTION 14. Report -- On or before the thirtieth day of January in each year, the Authority shall make an annual report of its activities for the preceding calendar year to the governor and to the general court. Each such report shall set forth a complete operating and financial statement covering its operations during the year. The Authority shall cause an audit of its books to be made at least once in each year by the state auditor, and the cost thereof may be treated as part of the operation of the project. Such audits shall be deemed to be public records within the meaning of chapter sixty-six of the General Laws."

A complete report of an audit of the accounts of the New Bedford, Woods Hole, Martha's Vineyard and Nantucket Steamship Authority for the calendar year ending December 31, 1953 was issued on May 24, 1954.

General: Individual copies of the audit reports have been submitted to His Excellency the Governor, the Lieutenant-Governor, the President of the Senate, the Speaker of the House, the State Librarian, and the Senators, Representatives and officials of the cities and towns of the area served by the Authority and the members and officials of the Authority.

The following comments, exceptions and recommendations were included in the report issued in connection with this examination:

**Audit:** This examination was conducted under the provisions of Section 14 of Chapter 544 of the Acts of 1948. The examination was limited in its details as is pointed out in the section of this report labeled "Scope of Audit", as a result of a drastic curtailment in the funds made available to this Department for this purpose.

**General:** It has been the obvious intent of this Authority since its inception to charge excessive amounts to depreciation and, at the same time, to minimize its reported losses. To accomplish these seemingly contradictory purposes, the Authority, each year, in reporting the results of its operations has neglected to include the cost of bonds retired during the particular year in their profit and loss statement, while, at the same time, they have reserved for depreciation amounts far in excess of actual needs. This situation has been noted in each of the reports issued by this Department, and we have consistently and freely predicted that such procedures could not be indefinitely continued and that eventually the Authority would be compelled to abide by the law which governs their activities and include such bond retirements in their cost of service, a step, which would immediately thereupon lessen their appetite for a large depreciation reserve. Our contention in this matter was based on Section 4 of Chapter 544 of the Acts of 1948, which created the Authority, and which states in subsection C that the cost of service shall include among other items the cost of "... interest and amortization on bonds or notes of the Authority issued under this act". The Trustees of the Authority have continuously ignored this section of the law.

As of the date of this audit, the balance of the Earned Surplus Unappropriated account reflected only the net losses reported by the Authority, and exclusive of the charges for bond retirements their reported cumulative loss on December 31, 1953 amounted to \$202,706.01. If the Authority had, in compliance with the law, recorded and reported their actual losses for the period, the balance of the Earned Surplus Unappropriated account would have amounted to \$522,706.01. To offset this loss on the same date there was a balance in the reserve fund of only \$212,865.64, which balance must be applied against any deficiency before the balance can be assessed upon the area served by the Authority in accordance with Section 9 of Chapter 544 of the Acts of 1948, all of which means that there existed on December 31, 1953 a net assessable deficit of \$309,840.37.

The fact that such a tremendous deficit existed was caused in no small measure by the previous practices of the Authority through excessive accumulations in their reserve for depreciation. This Department has consistently and vigorously opposed the large amounts being reserved annually out of earnings by the Trustees for such a reserve, and attention is directed to the fact that to December 31, 1953 a total of \$774,001.12 had been reserved for such purposes.

At a meeting of the Authority held on December 8, 1953, when it finally became apparent to the Trustees that a continuation of their previous policies would cause an immediate deficit assessment of approximately \$300,000.00 on the taxpayers of the area, they voted that past depreciation charges reflected in the above-mentioned deficiency should now be considered to have included the principal retirement of bonds. This action of the Trustees should have immediately reduced their reserve for depreciation by \$320,000.00, but in actual fact the statement in their minutes was left to stand by itself, for they failed to implement their vote by making consequent alterations in the actual accounts of the Authority. The mere empty words included in the minutes of the Trustees' meeting are an idle and futile gesture and an open subterfuge, and legally on the books of the Authority there remained on December 31, 1953 an assessable deficiency amounting to \$309,840.37. By a transparent and makeshift device therefore, they have postponed a deficit assessment for the year 1953, but it appears at this moment that it will be impossible for the Authority to avoid a substantial assessment upon the taxpayers for current operations in 1955, as is indicated in a later section of this report.

This Department has previously insisted that the amount reserved by the Authority for depreciation, amounting to \$774,001.12 was excessive. If we give substance to the meaningless vote of the Trustees on December 8, 1953, then we must now insist in the opposite direction that the amount now reserved for depreciation is entirely inadequate for the purposes of the Authority, since their action would, for example, automatically reduce the amount reserved for depreciation during 1953 to \$71,831.34.

It is obviously impossible for this Department to state with certainty what should be an exact and proper reserve each year for depreciation, but it becomes immediately obvious that a reserve of \$71,000.00 annually to provide replacements for assets with a net book value of more than two and one-half million dollars, many of which are already worn out, is inadequate.



It is recommended --

- I. That the vote of the Trustees on December 8th be reflected on the books of the Authority.
- II. That an immediate appraisal be made of the assets of the Authority to determine the rate at which these assets should be depreciated.

**Bond Resolution:** The terms of the Bond Resolution covering the original issue of the bonds of the Authority place certain unreasonable limitations upon the financial operations of the Authority. The limitations are of such a nature that it is not only possible but also extremely probable that at some future date the Authority could conceivably have in its possession several hundred thousand dollars, and, at the same time, be unable actually to pay its day to day expenses.

The following provisions exist in the Bond Resolution with respect to the treatment of revenue cash and the segregation of cash into certain funds:

- I. The monthly revenues from operations must be deposited intact into a special fund and are not available to the Authority for current expenses until the tenth day of the subsequent month.
- II. The balance of the Replacement Fund, which amounted to \$198,721.04 on December 31, 1953, representing cash transfers from revenues, cannot be used to meet current expenses and must be held in trust and applied only to property replacements. It is worthy of comment that although more than \$200,000.00 has thus been segregated since 1949, less than \$5,000.00 has been expended from this fund.
- III. On December 31, 1953, there existed a balance of \$160,225.86 in the Capital Improvement Fund, representing the excess of funds received from the original bond issue over the cost of acquisition less sums expended for capital improvements and replacements since acquisition. This balance may be used solely for capital improvements and replacements.

Attention is also directed to Section 108 of the Bond Resolution, which provides that in the event of an additional bond issue, none of these new bonds shall mature earlier than one year after the date of the final maturity of the present bond issue which matures in 1979. Since the Authority is currently considering the acquisition of a new vessel, the purchase of which must of necessity be financed from the proceeds of a bond issue, this particular section creates an almost impossible situation, and it follows that should borrowings be attempted providing for maturities to begin in 1980, the interest costs on such borrowings is certain to be exorbitant. As an example of the incongruity of this situation, it is pointed out that the vessel, which will be the collateral for the bonds that are to be issued, will be more than twenty-five years old, and will undoubtedly be outmoded or ready for replacement before any maturities in this particular issue begin. It must be presumed, therefore, that the future bondholders would in this event, have little protection other than the contingent responsibility of the Commonwealth.

The Authority should proceed to seek the removal of these restrictions.

**Trustees:** Although certain changes have been made in the Board of Trustees since the date of the last audit, this Department believes that its recommendation with regard to the membership of the Authority to be still valid and pertinent and that recommendation is herewith repeated:

"It is recommended that the present members of the Authority be reduced to the status of an advisory committee and that a new Authority of three members should be created, none of whom should live within the area of the Authority and have any interests, direct or indirect, in any business conducted within the area."

**Results of 1953 Operations:** It was noted that the gross operating revenues of this Authority increased from \$1,609,373.44 in 1952 to \$1,651,035.04 in 1953. This increase was occasioned mainly by the larger number of automobiles carried and increased revenue from handling of United States mail.

It was also noted that operating expenses also increased from \$1,524,991.95 in 1952 to \$1,709,502.37 in 1953 and consequently the net cost of service was increased from \$107,658.38 in 1952 to \$255,566.25 in 1953. Net operations, also, indicated a loss of \$58,467.33 in 1953 as compared with a gain of \$84,381.49 in 1952.

Expenditures from capital additions totaled \$34,504.31 in 1953 as compared with \$23,348.70 in 1952. These expenditures in 1953 included \$4,312.15 from the Property Replacement Fund and \$30,192.16 from the Capital Improvement Fund.

The number of passengers increased from 405,339 in 1952 to 406,336 in 1953, and the number of passenger cars increased from 49,615 to 54,248. Freight tonnage carried was approximately the same during the two periods.

Transfers from the Sinking Fund totaled \$191,372.50, of which \$110,000.00 represented funds for the retirement of bonds and \$81,372.50 for interest on indebtedness.

**Old Accounts Receivable:** In accordance with a suggestion made in the previous audit report, \$427.98 due from a concessionaire and outstanding since 1949 was charged off as uncollectible by the Authority.

**Lease of Land:** The previous audit report directed attention to a lease entered into by the Authority for land owned at Woods Hole. It was noted at that time that this agreement appeared to be contrary to the terms of the Bond Resolution.

In this connection, it was noted that this Authority was advised by its counsel to deposit the check which had been received for the first year's rent and to terminate the lease by notice. These instructions were accordingly acted upon during the period covered by this audit.

**Plans for New Vessel:** The previous audit report commented regarding the completion of plans for a new vessel. In this connection, it was noted that the Authority voted on December 21, 1953 that two members of the Authority be appointed to expedite the building and placing into operation of a new end-loading vessel.

It was learned that the details of a satisfactory method of financing this vessel will have to be agreed upon before any definite action is taken in this direction.

**Expenses of Members:** In the previous audit report it was recommended that detailed expense vouchers be submitted by members of the Authority at regular intervals, together with necessary vouchers or other evidence of payment.

During this audit period, only two members of the Authority had been so reimbursed for expenses incurred by them, and it is understood that expense reports of other members of the Authority have not as yet been submitted for the 1953 year.

It is again recommended that the Authority adopt a standard procedure for the submission of members' expense vouchers, so that all the expenses attributed to any year may be properly reflected.

**Legal Action Against Union:** As of the date of audit, the Authority's suit was still undecided. This law suit seeks clarification of its powers and rights to make an agreement to provide fifty-two weeks' work every year to the employees on a "Guaranteed Employment List".

It was noted, however, that while the audit was in progress the Authority instructed its attorney to file a notice of withdrawal of this suit without prejudice.

**Discontinuance of Service to New Bedford:** In its annual report to the Governor, the Authority noted that the Supreme Judicial Court had decided that the Authority could, for cause, suspend its service at New Bedford during the slack season.

In this connection it was noted the Authority voted on December 21, 1953 to suspend service to New Bedford from September 26, 1954 to April 25, 1955.

**New Freight Rates:** The Authority's annual report to the Governor indicated that applications for new freight rates had been made August 10, 1953, after taking into consideration the recommendations of the Authority's consulting engineers.

It was noted that these raised rates which were originally to become effective on September 10, 1953 were suspended to April 9, 1954, pending approval of the Interstate Commerce Commission.

In this connection it was further noted that while this audit was in progress, these changes were again voluntarily postponed to June 8, 1954 on request of the Interstate Commerce Commission.



**Policy Regarding Expenditures:** A review of the expenditures for capital improvements, replacements, and large amounts of maintenance repairs indicates that there appears to be no standard policy as to competitive bids, formal contracts or agreements, and/or the recording of information regarding authorizations.

In this connection it was noted that during this period under audit, there were items of major expenditures made from the Capital Improvement Fund of \$25,676.43 as follows:

Repairs to Woods Hole Warehouse	\$ 952 60
Blacktopping Parking Space at Woods Hole	3,595 00
Construction of Employees' Toilets at Woods Hole Terminal	7,412 48
Construction of Public Toilets at Woods Hole Terminal	13,716 35
	<u>\$25,676 43</u>

The first two expenditures were authorized by officials of the Authority, and although it was advised that verbal estimates had been obtained from several business firms or individuals, no indications of such bids were available. There also could not be found agreements in writing between the Authority and the firms who were given the contracts. It is therefore presumed that these two transactions had been contracted verbally.

It is understood that members of the Authority supervised personally all matters of contracts relating to the latter two items, as was evidenced by records of its meetings.

In this connection, it was noted that the final invoice submitted by the contractor bore the notation that the completed work had been inspected and approved by a member of the Authority.

In the interests of more effective control and possible financial savings, it is recommended that the Authority give serious consideration to the establishment of a policy governing the procedure for expenditures of larger amounts.

**Deficiency Transfer from Reserve Fund:** Section 9 of Chapter 544 of the Acts of 1948 outlines the procedure with respect to the deficits of the Authority as follows:

"Whenever the income of the Authority is insufficient to meet the cost of the service, as defined in section five, the reserve fund shall be used as far as necessary to make up said deficiency.

"If as of the last day of December in any year the amount remaining in the reserve fund shall be insufficient to meet the deficiency hereinbefore referred to, the Authority shall notify the state treasurer of the amount of such deficiency, less the amount, if any, in the reserve fund applicable thereto, and the commonwealth shall thereupon pay over to the Authority the amount so ascertained and the Authority shall apply the amount so received from the commonwealth in payment of such deficiency. Pending such payment, the Authority shall borrow such amount of money as may be necessary to enable it to make all payments as they become due.

"In order to meet any payment required of the commonwealth under this section, the state treasurer may borrow at any time, in anticipation of the assessments to be levied upon the cities and towns herein-after specified, such sums of money as may be necessary to make said payments and he shall repay any sums so borrowed as soon after said assessments are paid as is expedient."

On December 8, 1953, the Authority voted:

"..... the treasurer is authorized to determine the actual amount of such deficiency as of December 31, 1953 and each year thereafter and to withdraw such amount from the Reserve Fund as may be necessary to make up such deficiency and if the amount remaining in the Reserve Fund shall be insufficient to meet such deficiency to notify the State Treasurer pursuant to Section 9 of Chapter 544 of the Acts of 1948."

The total accumulated net losses of this Authority from operations from its inception to December 31, 1953, was determined to be \$202,706.01, and the surplus account balance as of that date was, however, indicated, as follows:

Earned Surplus - Unappropriated:	
Deficit as of December 31, 1953	(\$202,706 01)
Earned Surplus - Appropriated:	
Balance as of December 31, 1953	<u>32,894 79</u>
Total Surplus (Deficit December 31, 1953)	<u>(\$169,811 22)</u>

It was noted that on February 28, 1954 it was voted to transfer the balance of Earned Surplus - Unappropriated Account from the Reserve Fund. This amount included a deficiency of \$57,137.62 for the Sinking Fund to satisfy payments of bond principal and interest due March 1, 1954. The entire deficiency was subsequently deducted from the Reserve Fund and \$57,137.62 added to the Sinking Fund. The difference of \$145,568.39 was added to the Operations Fund.

It is significant that the balance in the Reserve Fund amounted to only \$10,276.89 after this transfer.

As the Authority has estimated an operating loss of \$131,410.00 in its 1954 budget, which under the new basis includes the amortization of bonds, it is apparent that a deficiency assessment of almost \$120,000.00 will probably be levied on the municipalities served by the Authority.



